The Handbook Series

Agricultural Credit

BULLOCK

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THE HANDBOOK SERIES

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Compiled by

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EXPLANATORY NOTE

This handbook is intended as a source of information on a new and little understood question, for both students and citizens.

The discussion of agricultural credit as a current topic is so new in this country that its literature is limited in scope chiefly to descriptions of the systems of rural credit in vogue in other countries. Consequently, the bibliography is limited, although the literature of the subject is being constantly augmented.

The chief sources of information on this subject are government documents. Most of these can be procured by the individual citizen through his representative or senator at Washington, or by purchase at a few cents for each title from the superintendent of public documents at Washington.

E. D. B.

September, 1914.

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INTRODUCTION

The well known reluctance of the American farmer to organize effectively for the promulgation of his own social and economic interest is, doubtless, largely responsible for the fact that he pays more for the use of money needed in his business than does the merchant in the city.

Changes in the system responsible for this condition are being advocated. The weight of argument seems to be with those who favor some form of co-operative credit. There are, however, many who have doubts as to the ability of American farmers to adjust themselves to co-operative schemes. Other plans are proposed—some of them involving a government subsidy.

Bills now pending before congress do not promise to crystalize into law soon. The condition of European farmers has been inquired into, and a voluminous report made, but it seems to be difficult to convince the American legislator that conditions in this country are essentially similar to those described in these comprehensive reports.

There is need for much study on this subject. The popular mind conceived the notion that the bills pending before Congress proposed to lend money to farmers for little or nothing. The editor of a leading magazine deplored the proposition to make credit easier for the farmer to obtain, arguing that borrowing would be unduly encouraged and real thrift become obsolete.

It is not improbable that conditions in this country may become more and more like those of older countries. Farms may become smaller, and support a denser population. Intensive and scientific cultivation will take the place of present methods. The co-operative idea will appeal more strongly to a dense population.

September, 1914. EDNA D. BULLOCK.

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From 1900 to 1910 the population of the United States increased twenty-one per cent; during the same period the number of farms increased only ten and five tenths per cent; which indicates that, in the ten years, rural population increased about one-half as much as the total population. In 1909 the per-capita production of cereals was only forty-nine and one tenth bushels; in 1899 it was fifty-eight and four tenths,—a decrease of nine bushels per head in ten years. Between 1899 and 1909 the aggregate production of cereals increased only one and seven tenths per cent, but their market value was higher by seventy-nine and eight tenths per cent in 1909 than in 1899,—the increase in price being forty-seven times the increase in quantity. In 1900 there was one farm for every thirteen and two tenths persons; in 1910 there was one farm for every fourteen and five tenths persons. On the average, therefore, each farm now has to furnish food for more than one more person than in 1900. In 1900, there were five and five tenths acres of improved farm land per capita of population; by 1910 the per capita improved acreage had declined to five and two tenths acres.

These figures make it clear why the exports of food-stuffs in crude condition, and food animals, have decreased from $227,300,000 or 16.59 per cent of the total exports, for the fiscal year of 1900, to $99,900,000, or only 4.6 per cent of the total for the fiscal year of 1912; and why similar imports have increased from $68,700,000 in 1900, to $180,120,000 in 1912. Of course the splendid crops of this year will, for the time being, alter the tendency of imports of food-stuffs to increase and of exports to decrease, but unfortunately experience indicates that another bumper crop is not likely for several years. Regardless of other influences the increasing disparity between the supply of and demand for food-stuffs, as shown by the foregoing data, would

seem almost to furnish an adequate explanation of the fact that on October 1, 1912, Bradstreet's index number of prices made a new high record of $9.4515.

Surprising as it may seem, it is within the last few years that the people of the United States have recognized the danger that lies in the increasing prices of food. The uneasiness with which the rise in the prices of necessities is now regarded is amply justified, for if there is a further considerable advance, a lowering of the standard of living of a great number of the American people, with its certain inimical consequences to the quality of our citizenship, is bound to occur. It is largely the apprehension of this possibility that has impelled the national government, the states, various associations and individuals, to undertake the promotion of scientific farming, to the end that the output of the farms of this country may be raised to a maximum consistent with economic production and the conservation of the vital qualities of the soil. Educational activity of this sort is excellent and necessary, and should, if possible, be continued with greater enthusiasm. However, agriculture is similar to other industries in that knowledge alone is not sufficient for success. Like those engaged in other kinds of business, farmers must have capital, in addition to knowledge and skill, and it is highly important that they obtain the capital they need on terms consistent with their credit.

What is being done to promote better farming, through education and the establishment of land- and agricultural-credit institutions, is due to the great importance of the industry, and not to any lack of intelligence on the part of the farmers themselves. There is no more reason to assume that farmers are incapable of, or indifferent to, progress than there is to assume that bankers are deficient because they operate under a faulty and inadequate banking system. The farmers of the United States are the intellectual superiors of the farmers in any other country in the world, and, with equal facilities, they will set the pace in scientific agriculture.

A superficial knowledge of agricultural conditions in the United States is all that is necessary to understand that the particular pressing need of American farmers is financial machinery whereby the potential credit that they possess in abundance can be made negotiable. There is in this country a serious lack

of financial institutions suited to supply farmers with funds. In this respect the United States is the most backward of any of the important nations of the world, and, consequently, it is safe to say that this is the prime reason why this country is so far behind many other countries in the per-acre production of foodstuffs. The average yield of grain in the United States is about fifty per cent less than it is on the continent of Europe, and the average per-acre yield of potatoes is not more than thirty per cent of what it is in Germany. The most striking and important difference between farming conditions here and in many European countries, is that there farmers can readily obtain the funds they need, whereas in this country agricultural financing is difficult and costly.

In its capital requirements, farming is not unlike other industries, and it is like other industries in that unless these capital requirements are supplied, progress will be slow and dubious. Like the merchant and the manufacturer, the farmer needs funds: first, for the purchase of property and for its permanent improvement; and second, for temporary purposes,—such as financing crops. These two general divisions of agricultural capital requirements should be preserved in the nature of the loans that are made to secure funds. Each of these two divisions can and should support its own credit, known respectively as land credit and agricultural credit. For the purpose of buying land and making permanent improvements, farmers should be able to make mortgage loans which have a long time to run, and which they can gradually repay by small yearly installments. Money invested in land or permanent improvements becomes fixed capital, and the proportion of a farmer's income that can be attributed to this sort of capital is so limited that it is illogical and unreasonable to expect the money so invested to be repaid except after a considerable period of years. The maximum length of a farm loan in this country is from three to five years, and, at the end of that time, it may or may not be possible to secure a renewal. As a rule, a farm-mortgage loan here has a very restricted market, and, consequently, the borrower frequently is obliged to pay an unreasonable rate of interest, and to submit to burdensome conditions from which the nature of the security he has to offer entitles him to be exempt.

Until some way is provided by which farm mortgages can be

made the basis of a long-time security, with the marketable qualities of a railroad or industrial bond, and which can be sold at a price very nearly determined by the soundness of the security, the farmers of this country will continue to be burdened by the terms they must accept in making mortgage loans. That it is possible to create a security of this sort is shown by the success of the mortgage-loan companies and associations of foreign countries, whose obligations sell on a basis as favorable as that of bonds of the most successful railroad and industrial corporations. The farmers of the United States have as good a claim to cheap money as have railroad and industrial corporations, because farm land constitutes as good security as a railroad or a factory. The marvelous and rapid development of the railroads of the country, to a very large extent, is due to the low cost at which they have been able to obtain vast sums of money for purposes of development. There is absolutely no reason why just as cheap money should not be similarly available for the acceleration of agricultural development.

For the financing of temporary capital requirements, the personal credit of farmers should be made available. A farmer should not be obliged to mortgage his land to obtain funds to operate his property. As in the case of mortgage loans, the facilities in this country for making negotiable the personal credit of farmers are inadequate. There is no reason why the industrious, capable farmer should not be able to borrow on his personal obligation as easily as does the merchant. A few American farmers do a banking business on a scale sufficiently large to make them desirable clients of local, state, and national banks, but, for the great majority, it is exceedingly difficult, if not impossible, to secure the personal credit accommodation they need, and to which their responsibility entitles them.

The success of foreign rural coöperative banking associations in reducing the rate of interest on loans to farmers, and the almost negligible amount that has been lost through the operations of these associations, clearly indicates that the high rate of interest that farmers in this country must pay, is due, not to any inherent weakness in their credit, but to the lack of properly organized facilities for making their credit negotiable. The lack of agricultural banking facilities is a tremendous hardship for the farmers. It means that they are laboring under a

handicap which those engaged in no other kind of industry have to bear. Under present arrangements, farmers are paying two, two and a half, and three per cent more for money than they should. Upon the enormous amount of borrowed funds that the farmers of this country are obliged to employ, the excessive interest amounts to a sum so large that if it could be saved and expended in increasing the productivity of our farms, it would do much toward solving the problem of inadequate crops.

Fortunately, in the attempt to establish banking facilities for the farmers of the United States, it is not necessary to work in the dark. Many of the farm-credit institutions of other countries are established on principles so broad and sound that, with some modifications, they can be adapted to conditions in this country. It is important, therefore, to know all we can of foreign land- and agricultural-credit institutions.

Germany is, perhaps, the country where agriculture is the most thoroughly and most intelligently organized. There are organizations in Germany for the purpose of supplying farmers with capital, and organizations for carrying on nearly all of the operations connected with the cultivation of the soil—all owned and managed by the farmers themselves. These organizations have revolutionized agricultural conditions in Germany. They not only have been the means of immensely increasing the productivity of the farms, but have also wonderfully improved the economic and social status of the farmers themselves. The first kind of agricultural coöperative organization started in Germany was for credit or banking purposes, and the entire fabric of agricultural coöperation in Germany now rests on its elaborate and efficient system of credit societies. Consequently it is reasonable to assume that these credit societies are responsible for the advanced condition of agriculture. Agricultural credit in Germany is based on the principles of self-help and coöperation.

In those European countries where land- and agricultural-credit facilities are the most complete, as a rule, long-time mortgage loans and short-time personal loans are made by different institutions organized along different lines. Of the two kinds of credit institutions, perhaps the most successful and efficient are the Raiffeisen banks in Germany and the Credit Foncier in France. These two institutions differ in many essen-

tial particulars. A Raiffeisen bank is a mutual association, the Credit Foncier is an incorporated company; the Raiffeisen banks loan for the most part on personal obligations, the Credit Foncier on first mortgages; the Raiffeisen banks secure most of their funds through the deposits of the farmers themselves, the Credit Foncier, through the debenture bonds that it issues, obtains funds for its loans from the conservative investors of all classes. It is because of these and other characteristic differences, and by reason of the wonderful success of these two institutions, that a knowledge of how the Raiffeisen banks and the Credit Foncier operate, and what they have accomplished, is peculiarly illuminating and profitable. Each of these two types of credit organizations possesses many features well adapted for systems of farm-credit institutions in this country.

The Raiffeisen banking system was founded by Frederick William Raiffeisen primarily for the purpose of freeing small farmers from the exactions of usurers. Raiffeisen knew nothing of finance, but he did understand the needs of those who, under the most discouraging circumstances, were bravely trying to gain a living from the soil—a class among whom credit was the particular and essential thing lacking. Sir Horace Plunkett, who has done so much for the agricultural development of Ireland, has said that the establishment of the Raiffeisen banks was second in economic importance only to the discovery of steam.

The Raiffeisen banking system is based on the principle of combining borrowers, to the end that by association they may secure credit facilities which, as individuals, it would be impossible for them to obtain. The fundamental provisions of the Raiffeisen banks, as contemplated by Herr Raiffeisen, were those of gratuitous management, unlimited liability of members, and a strictly local field of operation. For the most part the Raiffeisen banks adhere to those provisions. The membership of the banks is made up almost exclusively of farmers. In 1909 the number of members for each bank averaged 92. In the beginning the Raiffeisen banks had no capital stock, but in 1876 a law was passed which made it necessary for them to issue shares of stock. The value of the shares was fixed at what was little more than a nominal amount. In 1909 the average paid-up capital per member was only 19 marks. The dividends that the Raiffeisen banks can pay are strictly limited—in no event can they

exceed the rate of interest charged on loans. In 1909 these banks made a net profit in excess of 7,000,000 marks, but of this only 13 per cent was paid out in dividends—the balance being passed to the credit of the reserve fund. Because of the nature of its business the sphere of operation of each bank is very limited. It is necessary for the members to know each other, and to know for what purpose each loan is made, and to see that the money is so used. The Raiffeisen banks have done much to encourage thrift, because they have supplied a new incentive for saving. Inasmuch as the successful management of these banks requires a keen sense of responsibility on the part of the individual members, their moral effect is very considerable. Through their membership in the Raiffeisen banks many German farmers have become familiar with the nature and uses of credit and have acquired a knowledge of business. Altogether, these small rural banks have much improved the financial position and the moral and intellectual calibre of their members.

Because of its small size and restricted field of operation, the management of a Raiffeisen bank is very simple and inexpensive. In 1909, the average cost of management per bank was only 638 marks. The funds that the banks have to loan to their members are made up of the proceeds of the sale of capital stock, the reserve accumulated from profits, deposits,—both savings and current account,—and loans from the central coöperative banks, from other banks, and from individuals. In 1909, 88 per cent of these funds consisted of the deposits of the farmers themselves. The size of the average deposit is about $370.

The loans which these banks make are either on current account—a form of over-draft often used by European banks—or for fixed periods. There is a tendency to extend the practice of making loans on current account, as that seems to be the form best suited for members. As a rule the loans made by the Raiffeisen banks are for a short period—usually for one year, with a maximum of five. For the most part the loans are granted on the personal obligations of the borrowers, to which usually is added the guaranty of one or two associate members. Occasionally loans are secured by deposit of collateral, or by mortgages. The average loan of the Raiffeisen banks in Germany is about $150. As the small size of the average loan indicates, the Raif-

feisen banks primarily are institutions for supplying credit accommodations to the small landowner.

The Raiffeisen banking system in Germany now comprises about 15,000 local banks, with a membership of approximately 2,000,000. These banks are now doing a yearly aggregate business of about $1,500,000,000. The local Raiffeisen banks are grouped under 35 provincial banks, which, in turn, are affiliated with two general central coöperative banks. The local banks borrow money from the provincial banks, when required, and also loan to them their surplus funds. The provincial central banks are coöperative societies, with limited liability, and they occupy much the same position toward the local rural banks that the latter do toward their members. Their working capital is made up of the paid-up shares of their members (the local banks), of the deposits of the local banks, and of loans from other banks. By means of these provincial and central coöperative banks, agricultural credit in those parts of Germany where these banks operate possesses the element of fluidity in a remarkable degree—moving from those localities where it is not needed to those where it is needed. Altogether the Raiffeisen banks of Germany make up a wonderfully efficient organization, which, by supplying an enormous amount of agricultural credit, has revolutionized farming in Germany.

Up to the middle of the last century, France was almost entirely lacking in land- and agricultural-credit facilities. As a result of much agitation there was passed in 1852 a law providing for land-mortgage banks, and under this the Credit Foncier was organized. Because of the success of the Landschaften in Germany, many of the principles and methods of these associations were incorporated in the French law. The Credit Foncier is unlike the Landschaften in the very important particular that it is an incorporated company, not a coöperative association. The Credit Foncier has a capital of 200,000,000 francs and operates under the supervision of the state. In the beginning (1852) the government granted the Credit Foncier a subsidy of 10,000,000 francs, in order to help it make loans at a rate advantageous for that time. The subsidy was not renewed, and the state does not now intervene, except occasionally, to exercise control. The Credit Foncier possesses many special privileges, pertaining to the issuance of bonds and to its loans, that give it a practical,

if not a legal monopoly of the kind of business in which it is engaged.

The purposes of the Credit Foncier are:—

1. Lending money to landowners, counties, communes, and public services.

2. Creating and negotiating mortgage bonds, or, more properly, debentures, to a value which cannot exceed the amount of the sums due from its borrowers.

3. As a necessary accessory to its principal business, the Credit Foncier has the right to carry on ordinary banking operations, within well-defined limits, and, in that connection, it is permitted to receive deposits; but the aggregate of deposits must not exceed 100,000,000 francs.

A large part of the funds received on deposit is employed in discounting commercial bills, on condition that they have two signatures and do not run over three months. The shares of the Credit Foncier, which are dealt in on the Bourse, are issued at five hundred francs, and any one can own them. The stock now receives six per cent dividends, and sells for about 750 francs a share. The government appoints the governor and two sub-governors, who, by virtue of their office are members of the Council of Administration. There must also be three treasurers-general —state officials—among the 23 members of the Council of Administration. These treasurers are appointed by the general assembly of the company, but before presenting their names to the assembly it is customary to obtain the approval of the Minister of Finance. The general assembly represents all the stockholders, and is composed of the two hundred who own the largest amount of stock. These stockholders meet once each year to ratify the accounts, vote the dividend, and dispose of such other business as may properly be presented to them. The general assembly elects a Council of Administration of 23 members. The governor has a right to veto the acts of both the general assembly and the Council, but there are only a very few instances on record of his having used this power. The Council of Administration meets once each week, and, among other things, passes upon all loans.

The two principal kinds of loans made by the Credit Foncier are mortgage loans and communal loans, and its total outstanding loans now amount to about 4,000,000,000 francs. So far as

this country is concerned, that part of its operations covering the making of mortgage loans to landowners is of the greatest interest. Our municipalities now have a broad and steady market for their securities.

The Credit Foncier makes loans to landowners on the following terms:—

1. Short-time loans, without amortization, for a period of from one to nine years.

2. Long time loans, with annual amortization, for a period of from ten to seventy-five years.

The rate of interest on these loans is 4.30 per cent at the present time, and the rate is the same for all kinds of property. The rate charged on a loan must not exceed the rate at which money is obtained from the sale of bonds by more than six tenths of one per cent. Loans are made only on first-mortgage security, and the amount of the loan cannot exceed one half of the value of the property, except that loans on wine and timber lands must not exceed one third of their value. When the loan is made for a short period, the borrower pays each year only the amount of interest due, and the principal sum must be paid in full at the end of the term of the loan—from one to nine years. Long-time loans are amortized; that is they are gradually paid by means of an annuity, which includes the interest and a small fraction of the principal. As a rule, the borrower himself fixes the length of time that the loan is to run. The amortization extends over the whole period of the loan, so that the total of the interest and capital amount is repaid from a constant yearly annuity. Consequently, the cost of amortization depends on the length of the loan, and on the rate of interest. On a loan running for seventy-five years at 4.30 per cent interest, the annuity—including interest and amortization—is at the rate of 4.48 per cent per annum. The borrower has the right to pay the principal of the loan at any time, and to profit by the amortization already made. He can also make partial payments and thereby reduce the amount of the annuity.

The bonds issued by the Credit Foncier have no fixed maturity, but are called for payment by lot. Each payment of bonds must be of such an amount that the bonds remaining in circulation do not exceed the balance of the principal owed upon the hypothecated loans. If the government approves, there can be

added to the bonds called for payment certain prizes and premiums. The funds received from the usual amortization, or anticipated payments, must be used to amortize or redeem bonds, or to make new loans. In general the bonds bear 3 per cent on the nominal capital, and the total cost of recent loans to the company, including interest, prizes, and premiums, is about 3.60 per cent. The bonds are sold by public subscription, and may be paid for in installments. About every three years the company issues bonds sufficient to yield from 300,000,000 to 350,000,000 francs. The bonds are subscribed for by people of small means, and usually remain in their hands; consequently the quotations of the bonds show little fluctuation—less than French railway bonds. The company always keeps a few bonds on hand for sale, but the bulk of them are disposed of by public subscription.

The Credit Foncier has departed from its original purpose to the extent that at the present time a very large part of its loans are made on urban real estate. However, this is simply an incident, and does not reflect on the applicability of the principles on which the Credit Foncier is founded, to an institution confining its operations to loans on rural land.

In view of the wonderful success of the Credit Foncier and kindred institutions, it is hard to understand why the principle of debenture bonds, secured by long-time real-estate loans, payable by amortization, should not, long ago, have been put in practice in this country. The business of loaning money on farm mortgages in the United States is still carried on in a primitive way. We are still making farm-mortgage loans for such short periods that frequent renewals—often very embarrassing to debtors—are inevitable. The existence of facilities whereby farm-mortgage loans could be made for long terms—say fifty years or more, with provision for easy payment by amortization—would be a wonderful boon to American farmers, and a decided stimulant to the development of efficient, scientific farming.

Neither the Raiffeisen banks nor the Credit Foncier involve strange financial principles. In this country, the splendid record of the mutual savings banks proves that coöperation can be safely and wisely applied in banking. We are familiar with the principle of debenture bonds, and we know something of the principle of amortization. Of course, it is impossible to pick up any

of the foreign farm-credit systems, out of its social setting, and say, offhand, that it would be as successful in this country. The history and success, as well as the details of organization, of every one of the foreign farm-credit systems have been very largely determined by the temperament, the social and economic status of the people, and by the conditions of climate and soil of the country in which they are situated. Consequently in working out the plans of agricultural- and land-credit systems for this country, we must be cautious in our adherence to foreign models. We must remember that the value and success of every institution depends upon its being in harmony with its environment.

The importance of adequate credit facilities for our farmers is beginning to be keenly appreciated. The American Bankers Association, the Southern Commercial Congress, and other organizations, are doing splendid pioneer work by agitating the need of an agricultural banking system, and by disseminating information as to what has been accomplished abroad.

The establishment of agricultural- and land-credit systems in this country is not a political question; it is an economic question of the gravest import—the proper solution of which demands a patriotic national purpose and constructive ability of a high order.

International Institute of Agriculture. Outline of European Co-operative Credit Systems.

Chapter II. Popular Banks in Germany: The Schulze-Delitzsch System.

These banks, which were formed before the rural banks and served as models for the first banks founded by Raiffeisen, assisted largely at the beginning of the co-operative movement to combat usury even in the country. Even now, notwithstanding the great development of the rural banks, they are largely utilised by farmers, many of whom belong, as we shall now see, to the banks themselves.

While Raiffeisen adapted co-operation to the needs and to the mental attitude of the farmers, Schulze-Delitzsch devised organisations specially suited to the needs and economic char-

acter of town-dwellers. The Schulze-Delitzsch banks have, therefore, unlike the rural banks, a large range of business in an extended area of operations; they accumulate a considerable quantity of capital and they distribute fairly high dividends. They do not follow the principle of unpaid management; on the contrary, their management is rather costly and is conducted on strict business lines. They are based more often than the rural banks on limited liability and they carry on a series of banking operations which the rural banks only undertake exceptionally, if at all. In fact their business approaches more closely than that of the rural banks to banking business properly so-called.

The greater number of the Schulze-Delitzsch banks are affiliated to a general federation, of which we shall speak in due course. The number of banks affiliated to this federation increased from 904 in 1901, to 952 in 1911, while the membership increased during the same period from 527,000 to 620,000; the loans granted in 1901 amounted to 2,525,500,000 marks, while the loans granted in 1911 amounted to 4,427,900,000 marks.

There exist also a certain number of independent banks, unattached to the Federation, which, however, furnish to the latter statistics for arrangement and publication in its Year-book. Of 1,051 banks which furnished particulars of their working in 1911 to the Federation, 952 were affiliated to the Federation, and 99 were independent of it. The particulars which follow refer (except where otherwise indicated) to the 1,051 banks, including in this way the popular banks which, though not belonging to the Federation, have furnished it with returns.

1. *Organization of the Popular Banks*

There are marked differences between the popular banks and the rural banks, both in regard to the character of the members and to the size of their shares.

Membership.—The average membership of the popular banks in 1911 was 639, a figure considerably higher than the average for rural banks.

Whilst the rural banks draw their members chiefly from farmers, the Schulze-Delitzsch Banks include members of various occupations.

In the following figures are shown by percentages the dif-

ferent classes which composed the membership of the popular banks at the beginning of 1912.

1.	Independent agriculturists (farmers, etc.)	26.61
2.	Wage-earning agriculturists (laborers, etc.)	2.42
3.	Artisans	22.80
4.	Merchants, manufacturers, etc	19.00
5.	Workmen, apprentices and wage-earners generally	11.30
6.	Professional men, civil servants, clerks, etc.	9.09
7.	Persons living on pensions or possessing independent means	8.78
		100.00

The class most largely represented are the independent agriculturists, who are usually farmers cultivating small or medium-sized holdings. Next come the artisans. These two classes together furnish about half the total membership. Considering the members from the point of view of social status, we may say that the popular banks contain principally persons belonging to the lower middle classes, without, however, excluding either the working classes or the persons who, like civil servants, manufacturers, etc., occupy a higher social and economic position.

Women formed 11.5 per cent of the total members and by this figure also—relatively a high one—is shown how wide a field of action these banks have.

Liability.—In 1911, out of the 952 banks embraced by the National Federation, 563 (that is, 59.1 per cent) were based on unlimited liability, 385 (or 40.5 per cent) on limited liability, and 4 only (0.4 per cent) were constituted with unlimited liability to make supplementary payments.

Although the system of limited liability is steadily increasing, unlimited liability is still considered the best system on which to establish popular banks in districts which are not yet familiar with co-operative credit.

Shares.—The shares of the members are, as we have already remarked, rather high. The General Congress of the Popular Banks of 1896 at Wiesbaden recommended that the shares should be at least 300 marks. A subsequent Congress recommended for banks with limited liability a minimum of 500 marks, limiting the liability of the members to three times the amount of the shares.

In point of fact in 740 of the banks affiliated to the National Federation the shares were of a nominal value equal or superior

to 300 marks. It is not necessary that the shares be paid for in one sum: they may be paid for by the members in monthly instalments.

Towards payment for the share or shares subscribed by a member are placed, in addition to the monthly instalments, any dividend which becomes due to him on a division of profits. Only when the share is fully paid up does he receive such dividend in cash. The prospect of receiving dividends in cash incites the member to make every effort to complete his payments in the least possible time, and thus become the actual owner of capital, albeit on a modest scale.

The average paid-up capital per member (not the nominal value of the shares, which is generally a round figure) is 368 marks, but there is a constant tendency to increase it. If we regard indeed only the banks affiliated to the National Federation, for which we have a longer series of comparable figures, we find that in 1882 the average was 223 marks, increasing successively to 226 marks in 1892 and to 276 in 1902, and reaching in 1911 to 364 marks, which is slightly less than the figure for the total of all the banks together.

2. *The Business of the Popular Banks*

Working capital.—The aggregate working capital of the popular banks was nearly 1,668,000,000 marks at the end of 1911, giving the truly remarkable average of 1,587,298 marks per bank. This average, which shows the financial importance of the popular banks, is the result of a continuous upward movement. If we consider again only those banks affiliated to the National Federation we find that in 1886 it was only 617,000 marks; in 1898 it rose to 800,000 marks and in 1902 it reached a million. In the last twenty years the aggregate funds at the disposal of the popular banks has, therefore, been trebled.

Examining the sources from which these funds are derived, we find the following figures in 1911:

The bank's own funds:

	Marks.	Percentage of Total Working Capital.
Share capital	247,294,344	14.8
Reserve funds	105,799,673	6.4
Total	353,094,017	21.2

Capital from outside sources:

	Marks.	Percentage
Private deposits	1,276,172,048	76.5
Debts contracted with banks or associations	38,984,086	2.3
Total	1,315,156,134	78.8
Total working capital	1,668,250,151[1]	100.0

The proportion of the banks' own funds (21.2 per cent) is, therefore, appreciably higher than in the case of the rural banks.

In opposition to Raiffeisen, who wished to exclude share-capital altogether, Schulze-Delitzsch proposed to furnish capital for the popular banks exclusively from the banks' own means.

Seeing that this was unattainable he held, later on, that it was necessary that the share capital should form a third of the working capital. The propaganda for increasing the amount of owned capital continues at the present time. The tendency is hampered in a marked degree by the fact that the higher the ratio of the bank's own funds to the total working capital, the lower becomes the ratio of net profits to share capital, and the lower, therefore, the dividends.

In addition, while by the payment of a reasonable interest a very large capital may fairly easily be attracted from outside sources, the accumulation of directly owned capital proves a much slower and more difficult operation. So that, instead of the desired increase in the ratio, there is to be observed in recent years a slight decrease.

The private deposits are usually distinguished as "savings deposits" and "ordinary deposits." According to this distinction the first class comprises deposits of small amounts coupled with long notice of withdrawal; the second, deposits of large sums or for shorter periods. Now, however, such a distinction is becoming little more than a formal one, and in the returns the two classes are grouped together.

To the capital furnished by banks and associations indicated in the preceding table it would strictly speaking be necessary to add the sums which the banks acquire by re-discounting with third parties the bills which they have discounted for their members.

At the end of 1911 there were in circulation bills for 51,497,470 marks, so that including also this item among the

[1] $397,418,550, or £81,661,670.

outside capital we have a grand total for such capital of 1,366,653,604 marks.

Loans and Investments.—So far we have dealt with the working capital of the banks. We must now examine the use made by them of the funds placed at their disposal by their creditors.

Since the object of the banks is to supply credit for their own members, they should in theory confine themselves to the single function of granting loans to members under varying forms. For two reasons this does not happen.

Evidently it can never be the case that the funds on hand in the banks exactly balance the demands for credit which they receive.

Just as in the case where their own funds or the funds drawn from their members (the bank's own capital and deposits) are insufficient they are compelled to draw from outside sources, so, in the parallel case in which there is a surplus of such funds, they have to seek outside fields of investment.

In the second place they are bound to create for themselves a reserve fund for the safety of their own operations in the case of the insolvency of their members or the sudden withdrawal by the members of their deposits.

We must, therefore, distinguish between the loans granted to members, and the loans made to third parties under the many forms familiar to banking. That is to say, on the one hand, "loans," strictly so-called, and, on the other, "investments."

Examining the balance-sheets of the banks it appears that at the end of 1911 out of assets of 100 marks, 17.1 consist of investments, according to this distinction, and the remaining 82.9 marks of loans to members outstanding.

The composition of the assets is seen from the figures which follow:

	Marks.	Percentage.
Loans for fixed periods	469,660,330	28.0
Loans on current account	544,065,524	32.4
Discount of commercial bills	218,997,012	13.1
Mortgages and other land credits	158,086,387	9.4
Investments	286,051,023	17.1
Total	1,676,860,276[1]	100.0

Before referring in detail to the loans, we may remark that the assets included under the heading "Investments" comprise cash in hand, deposits with banks and associations to the extent

[1] $399,469,695, or £82,083,140.

of 71 million marks, first-class bills (bankers' acceptances) to 20,800,000 marks, shares or bonds to 108,200,000 marks, and real property to 58,400,000 marks. This last includes office buildings to the value of 30,700,000 marks, and other real property of which the banks have assumed possession as security for loans granted, to the extent of 27,700,000 marks.

As we have seen from the figures given the popular banks transact four kinds of credit operations—advances for fixed periods, advances on current account, bill-discounting, and loans on mortgage.

The banks being for the most part urban in character and conducting business in comparatively advanced districts, the current account loans, as we might expect to find, fixed the long-period loans, whereas the opposite is true of the rural banks.

With regard to fixed period loans, these are only in the most exceptional cases granted without guarantee. The amount so lent forms barely 1.9 per cent of the aggregate fixed-period loans. The guarantee usually demanded is either a special guarantee in the form of pledges or a personal guarantee in the form of sureties. Loans on personal guarantee form 86.7 per cent of the total loans. The popular banks in fact are designed to meet the needs of those classes who are not in a position to furnish the securities necessary for doing business with the ordinary banks. The remaining 11.4 per cent of the amount advanced is guaranteed by pledges.

The borrower may give as receipt for the debt his simple note of hand (*Schuldschein*) or a bill.[1] The employment of bills in this connection is one of the characteristics of the Schulze-Delitzsch system. He wished in this way to train the debtors of the bank to punctuality in business, and to simplify the collecting of interest.

Finally the popular banks having familiarised their customers with the use of bills have succeeded in diffusing the business of bill-discounting, of which we shall treat further on, and do a huge total business in receiving bills which are made use of by the "Syndicate for Receipts and Circulation" to which also we shall in turn refer.

The period of the loan is fixed as a rule at three months.

[1] Accommodation-bills (*Vorschusswechsel*) are here referred to, and must not be confused with commercial bills, to which we shall refer later.

But this term may be considerably extended by renewals, which, however, are conditional on the repayment in cash of at least 10 per cent of the amount. In the case of bills falling due the renewal is effected by the creation of another bill for a lower amount. This system of gradual extinction of debt accustoms the member to punctuality in his dealings and makes repayment easier.

Loans on current account are not made, as in the preceding case for a fixed amount and a fixed term, but are loans for which a maximum is fixed within which at any time the borrower may obtain credit from the banks. He is also free to make repayment, total or partial, at any time, and may also make deposits in current account beyond the amount of the debt. The loans may be guaranteed by sureties, by goods or other effects, or by mortgages.

Discount refers to commercial bills which actually represent dealings in goods. They must be paid on falling due in their entirety and, therefore, not only afford extensive security to the popular banks but may in turn be re-discounted with other institutions when it is necessary to increase the working capital.

It may easily be understood that mortgages and other land-credit instruments can form but a small proportion of the business of the banks, since they have not at their disposal capital adapted to this form of investment.

Nor is it possible to determine when the banks are dealing with genuine mortgage business and not merely with mortgages accepted as additional security for loans granted under other forms.

Profits and Losses.—The gross profits realized in 1911 amounted to 89,700,000 marks. Of this sum 50,700,000 was required to pay the interest on capital from outside sources. The gross profits represented 5.29 per cent of the total working capital; the sums paid, however, by way of interest on borrowed capital represented only 3.86 per cent of the working capital. The banks, therefore, are successful in procuring the capital they employ at a fairly cheap rate, and work upon a margin of interest which allows them a fair profit without pressing unduly on their debtors. From this margin must still be deducted the management expenses, which in the year indicated exceeded 14,000,000 marks. The figure represents 16.27 per cent of the gross profits and 0.09 per cent of the total business done (incomings and out-

goings). The net profit available for distribution, after deducting interest on borrowed capital, general expenses, depreciation, and the various losses was over 22,000,000 marks (including the balance brought forward from the previous year). This figure represents 8.45 per cent of the share capital and 1.26 per cent of the working capital.

While in the case of the rural banks the great bulk of the net profit is placed to the reserve fund, in the popular banks 29.7 per cent—not a high proportion—was devoted to the reserve in 1911. About 60 per cent of the net profit—13,000,000 marks—was distributed among members in dividends, and the residue was spent in aid of the propaganda, in works of public utility, and in bonuses to employees.

As we have seen, the popular banks distribute comparatively high dividends. The dividends must indeed form an inducement and a reward to the subscriber of capital, inciting and helping the member to acquire a small capital of his own by the payment in full of his share. It is calculated, in proportion to the amount actually paid up on the member's share or shares.

Out of 906 co-operative credit institutions affiliated to the National Federation which have returned information on this point, 753, or more than two-thirds, distributed dividends ranging between 5 and 7 per cent. Glancing at the extreme cases below and above this average, we find 2 banks which have distributed in dividends only 2 per cent, while 14 reached 10 per cent, one bank paid 18 per cent, and one 25 per cent. But as may be seen these cases of high dividends are altogether exceptional and occur in those banks where the proportion of share-capital to total working capital is low.

3. *Statistics of the Popular Banks*

The statistical returns of the popular banks for 1911 refer to the following affiliated and non-affiliated banks:

	Number of banks.	Number of members.	Number of members who have taken part in the credit business.
Affiliated to the National Federation.	952	620,660	354,852
Not affiliated to the National Federation	99	51,137	23,207
Total	1,051	671,797	378,059

It is worth noting how these banks really apply co-operative principles in relation to their members. More than half of the members took advantage, during the course of the year, of the credit facilities which they offered.

The following table contains the most important data relating to the business done by the popular banks federated and non-federated in 1911.

Business Done by the Popular Banks in 1911 (*including Returns from* 99 *Banks not Affiliated to the National Federation*

	Total Marks.	Average per bank Marks.
Total business done (incomings and outgoings)	16,343,938,594[1]	15,806,517[2]
Working capital	1,668,250,151	1,587,298
Paid-up share capital	247,294,344	235,294
Reserve funds	105,799,673	100,666
Deposits at end of year	1,276,172,048	1,214,246
Loans outstanding at end of year	1,390,809,253	1,323,318
Loans granted during the year	4,647,752,971[3]	4,422,219

4. *Federations and Central Institutions of the Popular Banks*

(a) FEDERATIONS

The great majority of the Schulze-Delitzsch banks are affiliated to provincial federations (32 in number), which in turn are affiliated to the General Federation of German Co-operative Societies.

The provincial federations include, besides the urban co-operative credit societies, co-operative distributive societies, co-operative productive societies and co-operative building societies. In 1912 the federations embraced 1,551 co-operative societies, of which 985 were credit socities, 293 distributive soceties, 65 productive societies and 208 building societies.

(b) CENTRAL INSTITUTIONS

For the popular banks the need of central banks has not been felt so strongly as for the rural banks. The popular banks have, in fact, by their very nature, greater facilities for obtaining access to the open money market, and the promoters of the

[1] \$3,893,531,421, or £800,043,875.

[2] Figures are obtainable for 1,034 banks only (939 affiliated, 95 unaffiliated). In calculating the average only the banks which furnish returns have been considered.

[3] \$1,107,209,999, or £227,509,806.

movement even hold that to be bound closely to specific central banks would be a hindrance rather than an advantage to the development of their business. Up to now three provincial federations have established central banks. These banks are companies with limited liability. Their importance is not great.

To equalise the funds of the popular banks there exists a special institution, the Syndicate for Circulation, which supplements the work of a special section of the Dresden Bank, with which the co-operative societies have current accounts so as to facilitate the movement of their funds and to equalise the various debits and credits. The same institution also serves to facilitate the cashing of bills and cheques, which are immediately credited to the respective accounts. In the year 1911 the total business done reached nearly 791,000,000 francs.

Chapter VII. Co-operative Agricultural Credit in France.

The first experiments in agricultural credit in France date back to the middle of the past century, but its real development only begins after the promulgation in 1884 of the Law on Professional Syndicates.

In 1894 the law which instituted local agricultural mutual credit banks gave a powerful impetus to agricultural credit, and in 1899 the Law on Regional Banks, which authorised the giving of state-aid, consolidated agricultural credit in France into an organic system which to-day spreads over the whole country.

The characteristics of this system are the following: decentralisation, mutuality, organisation according to occupation, and state-aid. Its objects consist, in the first place, in supplying farmers with the means necessary for carrying on the ordinary agricultural operations by means of loans for short periods; in the second place in facilitating co-operative societies and individual farmers in carrying on operations extending over long periods.

Besides the co-operative credit encouraged by the state there exist also various minor groups of co-operative institutions which have wished to remain entirely independent and which rely solely on their own resources.

1. *State-aided Co-operative Credit*

The fundamental laws which regulate the state-aided system

of agricultural co-operative credit are those of November 5th, 1894 and of March 31st, 1899.

The former instituted the local mutual agricultural credit bank; the latter the regional bank, which groups together the local banks of a given district, either the region, the department or a special area determined by its agricultural characteristics.

The state has placed at the disposal of the regional banks, in order that they may in their turn finance the local banks, considerable sums, which the bank of France is bound to pay to them as a condition of the renewal of its privileges. The Law of November 17th, 1897, in fact, laid it down that the Bank of France must advance to the state, without interest, for the whole period of its concession (that is, to the end of 1920) a loan of 40,000,000 francs, and that it must also make an annual payment (calculated according to the business done) which must not be less than 2,000,000 francs and is, in fact, between 3,000,000 and 5,000,000 francs. These sums form the state-fund out of which the agricultural credit system is aided.

(a) THE LOCAL BANKS

The local banks may be composed either of the whole or of a part of the members of one or more agricultural syndicates, or of the members of one or more mutual agricultural insurance societies. The object of this provision is to strengthen their characteristic of mutuality and solidarity and to facilitate mutual acquaintance and confidence amongst the persons composing the credit society.

The objects of a local credit society are to facilitate or to guarantee the operations either of the societies mentioned or of the members.

The local banks have a restricted area of operations, limited to the commune, the canton, or the village. The formalities of registration are reduced to a minimum and they are exempted from certain taxes.

Their initial capital is formed by shares ("quotes-parts"), subscribed exclusively by the members; it is sufficient if one-fourth is paid up. The shares, which are generally of the value of 20 or 40 francs each, do not give any right to dividend, but bear a fixed rate of interest which must not exceed

4 per cent. The societies can receive deposits with or without interest.

As to the liability of the members, the law allows the utmost latitude to the societies to decide its character and extent by their rules according to local conditions. In the majority of cases, the societies have decided that their members shall be liable up to the amount of the shares subscribed. Some have fixed upon a wider liability, either unlimited liability of all the members such as is found in the Raiffeisen banks, or unlimited liability of a certain number of members (for example, the members of the Committee of Management), or a liability extending to two, three or four times the nominal value of the shares of each member. Amongst the promoters of these societies, however, there is now manifest a tendency to adopt unlimited liability as the best safeguard for healthy co-operation.

The society is managed by a council and by a committee, which generally comprises a president, a vice-president and a secretary. As soon as it is established it becomes affiliated to the regional bank of the department. To do this it must subscribe for a certain number of shares in the regional bank. It is then admitted to partake in the credit facilities afforded by the regional bank, which discounts its bills or grants loans to it to form its working capital.

In the first case, when a member applies for a loan from the local bank, it requires him to sign a bill; this is then sent to be discounted to the regional bank, which immediately forwards the amount applied for, less the discount. In the second case, the regional bank grants to the local bank a loan which is usually proportionate to the amount of the shares subscribed. The local bank, when it does not immediately require the money so obtained, deposits it with the Savings Bank and withdraws from time to time such sums as may be necessary.

The first system, which is simpler and allows of a greater measure of control by the regional bank over the affiliated societies, is adopted in the great majority of cases. Thus, for example, in 1910 the regional banks discounted bills to the amount of 81,278,670 francs and only granted loans of 1,445,431 francs.

The rate of interest on the loans must naturally be higher than the discount required by the regional banks. The latter being

three per cent, the interest demanded by the local banks does not usually exceed four per cent. The margin of one per cent serves for the payment of the expenses of management and for the formation of the reserve fund.

As to the size of the loans, in some societies the sums which may be advanced to members are proportionate to the shares which they have subscribed, and may be 10, 15 or 20 times their amount. In other societies it is laid down that the loan shall not exceed a fixed sum, 1,000 or 2,000 frs., according to the kind of cultivation prevailing and to the solvency of the applicant.

There are different kinds of guarantee, varying according to circumstances. Certain banks insist in every case upon a surety or a "warrant" or upon the deposits of securities. Others only require such guarantees when the loan is of a certain amount. If the object of the loan is the purchase of live-stock, the animals must always be insured.

The period of the loans varies, according to the nature of the operations to be undertaken, from three months to a year. The period of the bills varies according to the period of the loan and according to the system adopted by the regional bank to which the local bank is affiliated. Many regional banks only allow bills of three months, with two, three or four renewals; others allow bills for a period equal to that of the loan. In the case of renewals an instalment is almost always required.

At least three-fourths of the profits of the society, are allocated to the formation of a reserve fund, until that fund is equal to half the paid-up share capital. The balance, if the General Meeting so decide, may be divided amongst the individual members in proportion to their dealings with the society.

When a society is dissolved, the reserve fund and other assets are divided amongst the members in proportion to their shares unless (as is generally the case) the rules have provided for their application to some work beneficial to agriculture.

The local banks have spread rapidly since 1900, as the following figures indicate:

Year.	Number of local banks.	Membership of local banks.
1901	309	7,998
1905	1,335	61,874
1910	3,338	151,621
1911	3,946	185,552

The following figures give an idea of the business done by the local banks in recent years:

	1910	1911	Increase.
Number of local banks.....	3,338	3,946	608
Membership	151,621	185,552	41,801
	Francs.	Francs.	Francs.
Subscribed capital	14,210,598	18,158,458	3,947,860
Paid-up capital	9,916,611	11,784,017	1,867,406
New loans granted during the year (exclusive of renewals)	70,533,340	82,540,623[1]	12,007,283
Loans outstanding at the end of the previous year..	42,671,323	51,983,588	9,312,265
Totals	113,204,663	134,524,211	21,319,548
Repayments received	61,388,806	72,924,328	11,703,253
Loans outstanding on December 31st	51,815,857	61,599,883[2]	9,616,295

The official reports do not indicate the capital of the local banks separately, nor the business done by them, but limit themselves to giving such particulars for the groups of local societies affiliated to each central bank. From these data, however, it is evident that the capital of the local banks is not very large, and the same may be said of their reserve funds. The statistics give no information regarding the deposits, but it may be assumed that they, too, are not very large in amount.

The interest paid on the shares varies from 2 to 5 per cent; the rate of discount from 3 to 5 per cent.

(b) THE REGIONAL BANKS

The agricultural credit banks of the second degree, called regional banks, are regulated by the Law of March 31st, 1899. They receive from the state, out of the funds furnished by the Bank of France, loans without interest, up to the amount of four times their paid-up capital, for a period of five years, subject to renewal. If, for example, there are in a department 10 local banks which have each subscribed 10,000 francs, their shares form an initial capital of 100,000 francs for the regional bank; the Government will then make an advance of 400,000 francs.

A Special Committee nominated by the Minister of Agriculture distributes such sums amongst the regional banks, and a body of inspectors supervises their working.

[1] $15,926,796, or £3,272,642.
[2] $11,886,133, or £2,442,366.

The regional banks are based upon the same principles as the local banks and they enjoy the same privileges. They are composed of local banks and of individual farmers, but two-thirds of the shares are reserved by preference to the former. The local banks usually pay up their shares in full; the individual members as a rule only pay one-fourth. Each member is liable up to the amount of the shares subscribed. The Committee of Management of a regional bank is elected from the representatives of the local banks.

The law limits the interest on the shares to a maximum of 5 per cent, and fixes the maximum of the deposits which the regional banks can receive and the bonds which they may issue at three-fourths of the amount of the securities which they hold.

The regional banks can, moreover, have their bills re-discounted by the Bank of France, or other credit institutions.

The profits are carried to the reserve fund which serves, in due course, to repay the state loans.

To the primary object of the regional banks have in recent years been added others, namely, the making of loans to co-operative societies for the production and sale of agricultural produce, and of loans to individual farmers for the acquisition and improvement of small holdings. For these purposes special advances are made by the state to the regional banks out of the fund provided by the Bank of France.

Without taking into account the renewals, the following figures show the loans made by the regional banks, etc., in 1911, as compared with 1910:

	1910. Francs.	1911. Francs.	Increase. Francs.
Direct loans for working capital	1,251,220	1,445,431[1]	194,211
Loans in the form of discounts of new bills	66,957,353	81,279,670[2]	14,321,317
Loans outstanding at the end of the previous year	40,971,508	49,487,477	8,515,969
Totals	109,180,081	132,211,578	23,031,497
Repayments received during the year	59,887,572	72,379,905	12,687,301
Loans outstanding at the end of the year	49,292,509	59,831,673[3]	10,344,196

If to the loans for short periods are added those for long pe-

[1] $278,906, or £57,310.
[2] $15,683,294, or £3,222,607.
[3] $11,544,944, or £2,372,258.

riods advanced to co-operative societies and individual farmers, we have the following figures:

	Francs.
Loans for short periods	132,211,578
" to co-operative societies (78 societies)	2,364,280
" for long periods to individuals (981 loans)	3,644,702
	138,220,550[1]

To the end of 1911, 202 co-operative societies had received 6,642,277 francs, in loans at rates of interest varying from 1 to 2 per cent.

A system for the provision of long-period loans to small farmers came into operation in 1910. In two years 1,155 farmers had obtained loans to the amount of 4,596,692 francs.

(c) GENERAL RESULTS

The general results achieved in the first decade in which the system of state-aided agricultural credit has been in force are most satisfactory. The local banks are constantly increasing and respond ever better to the new needs of agriculture. In the period from 1900 to 1911 they have placed about 467,000,000 francs at the disposal of farmers; the 2,000,000 francs advanced in 1900 have risen to 82,500,000 francs in 1911.

It is noted, however, that many regional banks, trusting too much to state aid, are not sufficiently careful to make the quinquennial repayments of the loans advanced by the state, and neglect to form resources of their own, other than the sums carried automatically to the reserve, by making efforts to attract deposits. The remark also applies to some of the local banks. In view of this, closer government supervision is recommended and meanwhile the Ministry of Agriculture has reorganised and strengthened the service of inspection.

Craftsman. 24:334-5. June, 1913.

Financial Help for American Farmers; Coöperative Farm Credits. W. H. Jenkins.

During last winter I heard at agricultural conventions several addresses on financing farmers by a coöperative credit system under state or government control. Some of the talks were given by men who had investigated systems now in operation in

[1] $26,670,632, or £5,480,289.

Europe. After the convention I also had the opportunity of hearing the opinions of farmers as they debated the advisability of such means of capitalizing farming operations.

The conclusions I have drawn indicate that most farmers are very conservative about obtaining loans by mortgaging their lands. The man who owns a farm free from debt hesitates a long time before placing on it a mortgage to enable him to buy pure-bred stock, drain land or secure needed machinery, even though he believes the money will be well invested. Especially will he consider the question before placing a long-time loan on his real estate, in order to secure a low rate of interest. And a man can hardly be blamed for not wanting to incur a debt that he will not be allowed to pay for many years, according to the terms of his loan. For short-time loans there is slight prospect that money can be borrowed more cheaply than at the legal rate of interest.

Some farmers doubt their ability to use borrowed capital so that they will feel safe in its investment. It requires scientifically educated and trained business men to get the greatest benefit from a herd of pure-bred cows, or to build up the soil and make it feed the cows well, with little purchased fodder. Many men lack the confidence to borrow $1,000 or so to start a herd of pure-bred cattle, or to provide for some needed farm equipment. Thus it is certain that a farm credit system cannot be forced; it must await the time when the men needing it have learned how to use it confidently and safely.

There is no question that the scientific agriculturist should be able to use more capital on his farm profitably, and that the success of many farmers and the prosperity of the whole country is hindered by the lack of it. This condition must be improved by the work of agricultural schools and colleges, farm bureaus, etc. One of the best things a nation can do is to place capital in the hands of properly educated, vigorous and well-balanced young men who wish to work out their life problems on farms. Capital is a most necessary tool and with it can be developed great natural resources of benefit to the farmer and to all mankind. The farmer who prepares himself to use capital judiciously can help to bring out the nation's agricultural wealth. It is therefore a judicious policy for the state to provide the means of making capital available.

The principle of coöperative credit is that of the brotherhood of mankind. It is an ideal toward which all should work. When one man has a surplus of capital the best thing to do with it is to lend it to someone who is in need of it and who can make good use of it. Just how farmers can loan money to each other through coöperative associations or farmers' banks is a problem yet unsolved in this country. A banking system could be based as well on farm mortgage bonds and the issue of currency so secured as on government bonds. Some think that the national debt should gradually be paid and land bonds take its place in the banking system. Such bonds are negotiable in Europe, and are considered as good an investment as government bonds. These land bonds, running 20 years or more, are placed by the farm banks at 3½ per cent and the money is loaned to farmers at 4 or 4½ per cent, the banks getting the margin for floating the bonds. Farmers can mortgage their land for only one-half its value, while the whole system is under government supervision. No farmer can borrow money in this way unless he is able to show how he can profitably invest it in his farming business. The use he shall make of the money on his farm is specified in some of the loans. As the money goes to improve the land and appreciate its value, there can be no safer investment.

One institution that can help American farmers to use a government-controlled farm system is the Farm Bureau, an association of farmers in which the United States Department of Agriculture and the State agricultural institutions coöperate with county officials in sending trained agricultural teachers to do actual demonstration work on county farms. The farmers' institutes have taught principles. The agricultural teacher in the farm-bureau work goes to farms and demonstrates how to apply principles of agricultural science to actual conditions, helping thus to solve individual problems. It is probable that farmers educated by the Farm Bureau and working under the direction of its manager, a graduate of an agricultural college and able to demonstrate the science he has learned, can use capital well. It may not be generally known that the Farm Bureau has passed the experimental stage and is now in successful operation in Jefferson County, New York. The point is that when the farmers in Jefferson County have learned more of the science of agriculture and are more competent to practice it; and when they

shed erroneous beliefs about farming and using loans under the direction of their expert farm-bureau manager, it will be a safe and profitable thing to obtain short-time loans at a just rate of interest.

Some New York farmers with whom I have talked, men of business sagacity and good judgment, foresee a danger in allowing American farmers to obtain long-time mortgage loans. The incompetent farmer, they argue, will not pay the mortgage and will therefore cease to be a landowner. Surely it is not encouraging to think that a hustling American farmer would not be able to own a farming plant free from debt in 20 or 30 years, the time in which the land bonds with the lowest rates of interest mature. Some farmers, however, can readily understand now a young man, who has or is able to earn about one-half of the value of the farm he wishes to buy, will be enabled to secure the farm on the easiest terms by placing on it a land-bond mortgage that matures in 20 years. But even then the benefit is somewhat doubtful, as it is possible to buy a farm with half the purchase money and give a mortgage for the balance at the 5 per cent. interest rate.

Whatever system for financing farmers is devised through state aid, there should always be provision made for the payment of land bonds by landowners; money should not be loaned to a man unless he can demonstrate his ability to pay it, for the object is to work toward the ownership of land by the farmer who lives on it and not toward tenantry.

Some plan of financing farmers through state or government supervision is so nearly in sight that we feel it is assured for the near future. Governors have appointed representatives to go to Europe to investigate systems in use there and direct information from the Legislature at Albany indicates that the members are favorable to the passage of a bill on farm credits as soon as it is rightly formulated.

I will quote briefly from the report of J. J. Dillion, publisher of the *Rural New Yorker,* read at the meeting of the New York State Agricultural Society at Albany. He stated that he "had studied the subject abroad and had found no principles that are not in operation here. Europeans," he said, "were only using the principle of partnership applied to farm mortgages." In this simple business proposition there is nothing mystic. Co-

öperation of the members of an organization must create a fund by contributions, which fund is loaned to farmers at low rates of interest. The result is the creation of land banks that loan money on farm mortgages. The money is loaned for from 10 to 75 years, the lowest rate of interest being on the long-time loans. The strict society plan of loaning is more economical to the farmer than is the bank system, because it is coöperative and the lender can get only a fixed rate of interest, one determined by the organization. In Europe the debentures or farm securities sell as readily as government bonds. The term of the mortgage provides for its gradual payment, the plan being that the farmers shall eventually own their farms.

In our country we need no government subsidy, only a system by which the farmers can coöperatively use their own funds for mutual benefits. Coöperative savings banks are needed that will make the best possible use of the savings of our people and assist them in the upbuilding and advancement of agriculture.

American Economic Review. 2:852-72. December, 1912.

Agricultural Credit in the United States. E. W. Kemmerer.

The United States, although the leading country of the world in the amount of its agricultural products and in the extent of its banking business, is behind nearly every other progressive country of importance in the development of agricultural credit, *i. e.,* short-time non-mortgage credit. Our manufacturing and commercial businesses are financed largely by means of such credit, and the capital invested in these industries is thereby rendered manifoldly efficient; not so with agriculture. Most farmers apparently make little or no use of short-time credit. There seems to be a wide acceptance in this country even among the farmers themselves of the dictum of Louis XIV, that: "Credit supports agriculture, as the cord supports the hanged." Is this a correct description of the situation? If so, what is the explanation, and what remedies if any are needed? The object of this paper is to throw light upon the answers to these questions.

First, as to existing banking facilities for agricultural credit, and their utilization by farmers. It is well known that the bank-

ing capital of the country is concentrated to a great extent in our large cities—to a greater extent than it would be if we had a well-developed system of branch banks like Canada—and that the banks of these cities are prevented by reason of their location from making many agricultural loans, even if they were so inclined. Of the 7,301 national banks in the United States September 1, 1911, 192 or 2.6 per cent were located in the dozen largest cities of the country. The national banks of these twelve cities, representing but 14 per cent of the population of the country, had 37 per cent of the national banking capital (capital, surplus, and undivided profits), 33 per cent of the individual deposits, and 40 per cent of the loans. It should be noted, however, that since the act of 1900, authorizing the establishment of national banks with a capital of less than $50,000 in small towns, there has been a continual and rapid increase in the number of national banks in small communities. On September 1, 1911, out of the total 7,301 national banks there were 1,966 with a capital of $25,000, and therefore presumably located in towns of less than 3,000 population, 372 with a capital between $25,000 and $50,000, and therefore presumably in towns of less than 6,000 population, and 2,297 with a capital between $50,000 and $100,000. Except for banks in towns not exceeding 6,000 population, the law as amended in 1900 does not permit any national bank to be organized with a capital less than $100,000.

Are the national banks which are accessible to farmers in a position under the law to meet farmers' needs? The answer to this question must be in the affirmative. Aside from the fact that national banks are not permitted to make loans on real estate security, there is no restriction in the national banking act which would interfere with loans to farmers for agricultural purposes. Personal security alone is legally acceptable; the range of possible collateral security is practically unlimited; and there is no limitation fixed by law as to the period of loans. National banks therefore have a very free hand in regard to loans to farmers.

When we inquire concerning agricultural credit in banks under state charters we find conditions varying with the different states, but, with a few minor qualifications, it may be said that the state banking laws are free from restrictions that would hamper state banks and trust companies in extending credit

liberally to responsible farmers. They are in a much better position in one respect to deal with farmers than are national banks, that is, in the matter of accepting real estate security. No state denies state banks this privilege, and such restrictions as exist upon its exercise are generally not onerous.

If commercial banks are comparatively unhampered by law in making short-time loans to farmers, it may be asked: To what extent are such loans made? Unfortunately practically no information is available on this question. In answer to an inquiry the Comptroller of the Currency wrote, under date of May 27 of this year, that no information with reference to short-time loans made to farmers by national banks had ever been compiled by the comptroller's office. The writer has found no trace of any investigation of this subject by state banking departments. For about a year he has taken occasion to inquire at every opportunity of individual bankers concerning their experience with regard to loans to farmers in different parts of the country. The replies received are so divergent that no conclusion can be drawn from them, except that the practice varies widely in different sections of the country and even in different communities in the same section, and that probably the farmers of the North Central and Western states borrow of commercial banks more than do those of the Eastern and Southern states. There is not sufficient evidence, however, for this latter inference to make it much more than a guess. In the absence of any comprehensive data, I shall resort to the unsatisfactory but representative replies from different parts of the country.

Neither of the two national banks in the city of Ithaca, N. Y makes any appreciable amount of loans to farmers. Both claim to be willing to do so, but say there is practically no demand. In some of the neighboring cities, however, such loans by national banks are more common. The cashier of a national bank in a town of about 800 population in an agricultural section of northeastern Pennsylvania writes:

Our farmers as a rule are not large borrowers and want loans only in small amounts for short periods.

Farmers in general will not go on each other's paper no matter how good the parties are, for they have been so often taken in by wild-cat schemes that they are shy when their names are required to be placed upon paper. They realize also that they are not familiar with business methods in the commercial world and dare not trust themselves.

There is a moderate amount of borrowing by farmers in western New Jersey. Estimates made by bankers in Princeton as to the proportion of farmers in that neighborhood who borrow for short periods of local banks vary from 15 to 40 per cent.

A former president of a national bank in Indianapolis writes:

> We came very little in contact with farmers. We made special effort to secure such business by sending to a considerable mailing list of carefully selected farmers circulars and personal letters . . . but the business did not come. My inference was that they dealt with the nearby small banks.

Of the situation in Lafayette, Indiana, a former vice-president of a national bank, writes:

> About 50 per cent of our business was with farmers. They borrow frequently from commercial banks, funds to be used for crop planting, crop gathering, purchase of agricultural machinery, improvements on the farm, purchase of cattle, and the carrying of cattle or hogs to maturity. Through Indiana these farmers' loans are very usual in the country banks, many preferring state charters so they may make these loans not only on personal but also on mortgage security.
>
> Farmers are seldom able to give any but personal or mortgage security. A large percentage of them are sufficiently responsible to be entitled to and to receive reasonable credit without security.
>
> Farmers seem to endorse for each other much more readily than do those of other classes. . . . The reason is, I think, clear. Each knows pretty much everything about his neighbor's financial status, the amount and value of his land, his live-stock, and other visible personal property, the amount of any mortgage and when due. So much being thus in the open there is less of the secretive habit, so that the extent of the invisible personal property and debts is apt to be known.

A similar report comes from a national bank in Lincoln, Nebraska, from which the following extracts are taken:

> The farmers of this state have need of accommodations of this kind to carry them through the crop season. As a matter of fact, they use short-time credit to fully as great an extent as do the business men in the city and smaller towns. In fact, I think it is true that in the smaller towns the bankers favor the farmers in preference to the small business men. . . .
>
> There is no doubt about the average well-to-do farmer in this state being able to furnish satisfactory security aside from mortgaging his farm for such temporary loans within any reasonable limitations. In some cases the banks take chattel mortgages on cattle or other live-stock, and in some cases where the farmer has a good equity in his farm they will not hesitate to take his personal note.
>
> While I do not know that there is any particular difference between farmers and other classes in this state as to their willingness to go security for each other, yet very little of this is done any more. There was a

time when it was not an uncommon thing, but it has become less and less until now there is very little signing done for others. In fact, the farmers feel that they are able to take care of themselves and do not ask others to sign with them, and are able to handle themselves without such an endorsement. This is true of all classes in this state.

I have never felt that in this locality farmers suffered in any way from lack of credit facilities. . . .

A former bank examiner in the state of California, himself a farmer, writes:

The farmers of California do not to any considerable extent make a practice of borrowing money from local banks or money lenders for short periods. . . .

In reviewing the various bank examiner's reports on some 500 state banks I recall very few instances of crop mortgages, and it impresses me that in many of the cases the mortgage was taken to obtain additional security for loans previously granted and secured otherwise.

I think it would be safe to say that the bankers as a rule have not favored short-time unsecured loans to farmers. They are, however, fast awakening to the fact that as a rule these are the safest loans a bank can make, and are making an effort to get in closer touch with the farmer. It would also be safe to say that the average small farmer does not as yet realize that he *can* obtain such credit at a bank.

Our farmers as a class are exceedingly reluctant "to go each other's security." Two-name paper is mostly confined to commercial transactions.

A college professor in the state of Washington informs me that short-time loans to farmers are common in that state, but that frequently the rate of interest charged is two per cent higher than that on commercial loans—the explanation commonly given being that a farmer borrowing generally reduces the resulting deposit credit more rapidly than does a merchant.

In the Southern states, particularly in the cotton, rice, and tobacco sections, the use of crop liens for short-time loans appears to be much greater than in other sections of the country. Such meager testimony as I have been able to secure seems to show that the amount of short-time agricultural credit extended by banks in the South is relatively small but rather rapidly increasing. The banks are catering more and more to this class of business.

Other evidence might be cited, but the above gives a fair picture of the situation as revealed by all the testimony received—a confused picture of widely varying conditions. Public opinion is now being aroused on the subject of agricultural credit, and

pressure is liable to be brought for hasty and perhaps radical legislation. Obviously, the first step to be taken in the interest of a sane solution of the problem is to find out exactly what the problem is. To this end the writer would urge strongly the need of investigations by the Comptroller of the Currency and by the various state banking departments of the present facilities and practices in the matter of agricultural loans. In view of the increasing public interest in the subject the investigations cannot be undertaken too soon.

Although the farmers in any section of the country may not resort to the banks for short-time credit it does not follow that they are not receiving such credit. As a matter of fact they are often receiving it on a considerable scale and in the most expensive way, *i. e.*, in the form of book credits with merchants. It is a common practice throughout the country for farmers to run up book accounts with local merchants during the spring and summer to be paid in the fall when the crops are sold. When this is done on any considerable scale the farmer probably pays more than bank interest under the guise of prices; and this is particularly true when he obligates himself to sell his crops to the creditor merchant. In the South this practice is carried to the extreme in the familiar "store-lien" system which holds many farmers in the cotton belt in a condition bordering on perpetual servitude. The custom is for the farmer to buy supplies of the local general store on credit for the year, agreeing to sell to the merchant his cotton crop in the fall, thereby cancelling the debt. A crop lien is generally given, and the merchant often dictates the character and the amount of the planting. The prices paid for cotton under this system are liable to be exceptionally low, and the prices paid by the farmer for his supplies exceptionally high. The system has proven a curse to many sections of the South. Witnesses before the United States Industrial Commission estimated the interest rates imposed by this system at from 20 per cent upwards. Mr. George K. Holmes of the United States Department of Agriculture testified:

> The rate of interest on the liens on the cotton crop of the South, it is safe to say, probably averages 40 per cent a year. All cotton men will agree that it is at least that. The store system of the South is a sort of peonage; that is what it amounts to with the cotton planter.

Since the Industrial Commission's report was published the

banking facilities of the South have been greatly increased, and the banks are coming into closer touch with farmers, with the result that the store-lien system is gradually breaking down.

Another form of credit to farmers is that obtained from dealers in farm implements and machinery which the farmers frequently buy on time, paying interest during the credit period.

One informant, who has been a bank examiner, writes from California—and his testimony is applicable to many other sections of the country:

> The new generation of merchants are not disposed to carry the farmer as of old and insist that overdue accounts be covered by promissory notes which are in turn hypothecated with their bank. In other words a clearer demarcation of function is being gradually brought about to the best interests of all concerned.

Such in general is the present situation in the United States in the matter of short-time agricultural credit as evidenced by the very indefinite and scant information available. What are the causes? Perhaps in them will appear some suggestions for the remedy.

The chief reasons for the backwardness of the United States as compared with Europe with regard to agricultural credit may be briefly summarized as follows: (1) Our wonderful agricultural domain where good land could be had almost for the asking, and where for generations land was so cheap and labor and capital so dear that intensive cultivation was generally unprofitable. (2) The prosperity of our farmers who have not been forced by dire necessity to resort to credit as were the farmers of Germany at the middle of the last century when the Raiffeisen coöperative banks were first organized. (3) The nomadic character of a considerable part of our agricultural population as it has moved continually westward in taking up of new lands, and more recently as it has been retracing its steps or moving northward. (4) The isolation of our farmers in this country of large farms and "magnificent distances." (5) The rapid growth of the manufacturing and commercial business of the country—and that largely in the hands of the same class of people who control the bulk of the banking business.

Add to these circumstances the obstacles which farmers always encounter in the matter of credit, as compared with manufacturers and merchants, obstacles such as the uncertainty of

crops and the strongly seasonal character of the farmer's credit demands, and we have a sufficient explanation for the backwardness of agricultural credit in this country.

To emphasize most of these causes, however, is to brand oneself as belonging to a past generation. Our domain of free arable land is practically gone; good farms must be bought, and for them ever increasing prices must be paid.

The era of hand cultivation is giving way to that of farm machinery propelled by horse-power and even by steam, gasoline, or electricity, with its resulting great increase in the efficiency of labor. Eleven years ago the editor of *The Dakota Farmer*, in his testimony before the United States Industrial Commission, put the matter tersely, and with little exaggeration, as affecting his own section of the country, at least, when he said: "When I first worked out it took five binders to follow a machine, one man to rake off, and one to carry the bundles together. Now the hired girl frequently drives a machine that does the whole business." Some idea of the extent of this increase may be obtained by reference to the following figures compiled from census reports:

Value of Farm Implements and Machinery in the U. S.[1]

Year.	Value. 000,000	Per cent increase.
1910	$1,265	69
1900	750	52
1890	494	22
1880	407	50
1870[2]	271	10
1860	246	62

The increase in the value of farm implements and machinery per acre of land in farms from 1900 to 1910 was from $0.89 to $1.44, or 61.8 per cent.

An analysis of the figures for farm machinery by geographic divisions shows a marked difference in the rates of increase, but the tendency in all sections during the last forty years has been decidedly upwards, the greatest growth having been witnessed in the decade ending 1910. During that decade the lowest rate of increase in any section was that of New England, 39 per cent, and the highest that of the Mountain states, 163 per cent.

[1] Exclusive of Alaska and Hawaii.
[2] Values in gold.

Another development which is making larger demands upon the farmer for working capital is the increasing use of artificial fertilizers, the expenditure for which in the United States approximately doubled from 1880 to 1900.

As the result of such tendencies and of the rapid depletion of our free domain, farming in the United States is losing its old time kinship to mining and becoming more like manufacturing. More and better machinery and more power are needed on most farms in the interest of efficiency. This calls for short-time credit. But a supply of good machinery requires a fair sized farm for its efficient utilization—hence the need for larger farms and for mortgage credit to make their purchase possible. Upon this subject there are some very illuminating data in Warren and Livermore's *Agricultural Survey* of four townships in Tompkins County, N. Y., from which the following is quoted:

> The value of farm machinery increases rapidly with the size of the farm. . . . Anyone who has ever made a list of the necessary farm machinery will see at once how inadequately these small farms are equipped. Yet their machinery costs nearly twice as much per acre as that on the larger farms that have nearly three times as much machinery. Machinery can be used more effectively on large farms. One mower, one hay rake, one tedder, one hay loader, one corn harvester, one grain harvester, one grain drill, one manure spreader, one potato digger, one potato planter, can do their work on a 250 acre farm as readily as on a small farm. Few of the small farms have half of these tools. If a small farm does have nearly all the list, it cannot use them enough to pay for the investment. The more efficient and numerous machines become, the larger our farms should be. It is interesting to notice how many of the tools are of very recent development. Almost half of the value of farm machinery on a well-equipped farm is invested in machinery that has been perfected in the last few years.

Much the same situation exists in regard to an adequate equipment of horses.

> Three or four horses are the smallest number that can be used efficiently with modern machinery. . . . The small farms have not enough horses to make efficient teams and yet they are over-supplied with horses compared with their area. On these farms there are only fifteen acres per horse. On the largest farms, one horse farms three times this area, with no resulting decrease in crop yields. . . . When we consider the cost of keeping a horse we see what a great advantage the larger farms have.

Forces like these are counteracting what is commonly thought of as the normal tendency of agriculture to move toward more

intensive cultivation *on small farms,* with the result that the average amount of improved farm land per farm actually increased instead of diminishing in the United States during the last decade. This does not mean less intensive cultivation, in fact quite the contrary; it means more intensive cultivation, but by the efficient utilization of good machinery and of power. It means further, as said above, a demand for mortgage credit for the purpose of enlarging farms—and that, at rapidly increasing farm prices.

The farming population is becoming more settled now that the free lands are practically gone and the frontier has disappeared. The isolation of the farmer is rapidly becoming a thing of the past, with the advent of rural free delivery, rural telephone, the automobile, and the parcels post. The farmer no longer buys gold-bricks nor is duped by fraudulent lightning-rod schemes except in the pages of the comic supplements.

When seeking credit the farmer can offer better security than ever before. His markets are larger, better organized, more certain, and more accessible. The risk of crop failure is less, thanks to the wonderful progress of scientific agriculture. There are few pests which cannot now be readily controlled by the intelligent farmer, who takes time by the forelock. The problem of moisture is growing less serious every year with the improvements in irrigation, dry farming, and the more scientific diversification of crops.

If the time is ripe for a greater use of bank credit in agriculture, how is that credit to be obtained? Broadly speaking four methods may be mentioned, only the last two of which are deserving of much attention at the present time. They are: (1) Establish government agricultural banks; (2) Adopt the Egyptian plan of a government guaranty to an agricultural bank established with private capital; (3) Encourage the farmers to organize coöperative credit societies on some such plan as the Raiffeisen or Schulze-Delitzsch banks of Germany; (4) Utilize more effectively in the interest of the farmer our present banking machinery, and improve it where it is defective.

The suggestion of an agricultural bank owned and operated by government, either state or federal, is not worthy of serious consideration in this country at the present time. The history of such banks both in Europe and America has generally been a

disastrous one, although a few have succeeded. Some exist to-day which are performing useful services to farmers, notably in the line of mortgage credit, among which may be mentioned those of the Australian States and New Zealand, and the recently established one in the Philippine Islands. The success of such institutions is not such as to justify any attempt to establish them in the United States, at least until every reasonable effort has been made to solve the problem by means of private and coöperative effort.

When one considers the question of the improvement of agricultural credit in the United States one instinctively thinks of the coöperative credit banks of the old world, because of their phenomenal success for a half century and more, the simplicity of their structures, the ease with which they may be established, and their ready adaptability to the widely varying conditions found in a great country like the United States. The description of the wonderful success of these institutions as told by Henry W. Wolff in his *People's Banks* reads like a fairy story. Although the success of coöperative banks has been great in nearly every country of Continental Europe nowhere else has it been so great as in Germany, the country of their origin, and it is to Germany one naturally turns first for suggestions. There we find four types of coöperative credit banks, Landschaften, Ritterschaften, Schulze-Delitzsch banks and Raiffeisen banks. The first two are coöperative associations loaning money on land mortgages, and securing funds largely through the issue of bonds against the collective mortgages. Being concerned with long-time mortgage credit they do not fall within the province of this paper. The other two types of banks deal especially with short-time credit, the one chiefly in the towns and cities, and the other with farmers in the rural communities. It is with the latter that we are most concerned. Let us therefore consider briefly the essential features of the Raiffeisen system.

These features are: (1) Organization on the strictly coöperative principle, none but members having the right to borrow, although non-members may make deposits. (2) Limitation of loan operations to a very small area in which all farmers are acquainted with each other. A bank's field of business, the founder believed, should not cover a parish of less than 400 people nor of more than 1500. The banks were to be, therefore,

purely neighborhood affairs. There is a sympathetic but well-informed neighborhood opinion which prevents the squandering of loans. (3) Unlimited liability of all members for the debts of the bank, a necessary corollary of which is the provision that membership is obtained only by election by those already members. (4) The working capital of the bank is obtained chiefly from the following sources: (a) Small savings "drawn, either from within the area covered by the bank, in which case it comes both from members and non-members, the former being rewarded where possible at slightly higher rates in order to encourage membership; or from without the area, in which case it of necessity comes from non-members." (b) Loans from the provincial bank of the district, or more importantly from the central bank of the Empire at which the local bank keeps a current account and with which it may rediscount its paper. Funds are also sometimes obtained from other banks or from private individuals. (c) A purely nominal share capital which the banks did not originally have, and which they have been forced against their will to issue. The requirement is now usually met by the issue of a few low-priced shares of which no member can hold more than one and upon which no dividend is paid. (d) Two surplus funds called reserve funds; one used exclusively to cover losses, and the other being the principal reserve fund (*Stiftungsfund*), commonly used for "positive improvements, such as the extension of the premises or the establishment of a burial fund." In this fund must be placed two thirds of the annual profits. The fund cannot be distributed among the members, even though the bank be dissolved. In such a case it is held in trust for a time for a new bank, should one be established, and if no such bank is established it must be used for some work of public utility. A recent publication of the International Institute of Agriculture analyzes the total working capital of the rural banks of Germany for the year 1909 as follows:

	Amount in marks. 000,000.	Percentage.
Share capital	22.4	1.2
Reserves	51.0	2.6
Deposits on current account	189.1	9.8
Savings deposits	1,455.6	75.2
Other liabilities	217.5	11.2
Total working capital	1,935.5	100.0

The striking fact brought out by these figures is that out of nearly two billion marks placed at the disposal of farmers, less than 11.2 per cent was furnished by outsiders, while more than 88.8 per cent was provided by the savings and other deposits of the farmers themselves and of the local public. (5) A fifth feature of the Raiffeisen system is that the bank's administrative organization is simple and democratic. Final authority on local questions resides in the general meeting in which every member has one vote. There is elected annually a committee of management consisting usually of five or six directors who meet weekly. As a check upon this executive committee there is also elected annually a council of supervision consisting of from six to nine members. A biennial audit is made of the accounts of each bank by an accountant employed by the district or central union. The books of the bank, except the individual deposit ledger, are open to the inspection of all members. Officers of the local banks serve without compensation, except the treasurer who has no vote in the making of loans. The typical Raiffeisen bank is described by Fay as "a small single room probably at the back of a farm building, opened twice a week and presided over by a single occupant," the treasurer. (6) Advances take two forms: the ordinary loan (of which the name is sufficiently descriptive), and the current account which is similar to the Scotch cash credit. The latter constitute about a third of the total and show a tendency to increase in proportion to the ordinary loans. The period of the ordinary loan varies from six months to three years; and in exceptional cases it may be even longer. Loans are repayable in instalments covering interest and part of the principal, or in lump sums. Banks reserve the right to call a loan on four weeks' notice. The average credit advanced per member is 500 marks, and the average interest rate probably somewhere between four and five per cent. Although mortgage and other collateral security is sometimes accepted, the banks' chief reliance is personal security, and the great bulk of the loans are made on two-name paper.

The Raiffeisen banks are organized into provincial federations with provincial banks at their head, and these in turn into a national federation with a central bank at its head. These provincial banks and the central bank "equalize the need of credit of the individual banks, supplying them with money when required

and employing their surplus funds. A large proportion of the German coöperative banks and other coöperative agricultural societies are federated in a single national organization, the National Federation of Darmstadt.

Such are the leading features of the greatest agricultural credit system of the world. To the American the surprising thing about it all is that such coöperative credit banks are practically unknown in the United States, although there has been a remarkable development here in recent years of other forms of coöperation among farmers. This surprise is the greater when one bears in mind that "whole counties have been populated in the Northwest by European agriculturists who came from neighborhoods where they were familiar with agricultural coöperative credit, and yet not a society of coöperative credit for these immigrants has been established from the beginning to the present time."

A real beginning in the direction of coöperative agricultural credit was made last year through the influence of the Jewish Agricultural and Industrial Aid Society (174 Second Ave., New York City). Although the history of these credit unions has been brief their success has been pronounced. Up to June 30 of this year the average age of these unions was but seven months, yet their reports of that date showed a total membership of 240, shares outstanding amounting to $4,180, and they had already granted loans aggregating $17,755.

As previously mentioned, the State Department at Washington, through our American embassies abroad and at the instigation of President Taft, is making an investigation of coöperative credit in Europe. The results are soon to be published and are to be used by the President as a basis of recommendations for some action in this country. Until that report is published it would be premature to make many suggestions concerning the adaptation of the Raiffeisen system, the Schulze-Delitzsch system, or any other system of coöperative agricultural credit to the needs of the United States. What is needed now—and possibly about all that will be needed in the future—is a campaign of education among the farmers themselves rather than one of legislation; although the development of such societies will doubtless be furthered in many states by legislation, such as was recently enacted in Massachusetts (ch. 419, Acts of 1909), freeing them from some of the hampering provisions of the general banking

act of the state. Conditions are so widely different in different sections of the country, and among different classes in the same section, that coöperative agricultural credit societies will need to be given a fairly free hand in such matters as limited or unlimited liability, the amount of share capital, receipt of deposits, etc., so that they may adapt themselves to local needs. A reasonable amount of government supervision on the part of the banking departments of the states seems desirable.

Passing now to the question of the better utilization of our existing banking machinery, we may consider it first from the standpoint of the government, then from that of the banks, and finally from that of the farmers themselves.

The provisions of the national banking act (*Revised Statutes*, sec. 5137) are too rigid in the matter of loans on real estate security. National banks are, of course, intended to be banks for business men, and their assets should be quick assets in so far as their liabilities are quick liabilities. But it should not be overlooked that the modern farmer is a business man, that he needs active credit for the efficient conduct of his current business, and that land is the only kind of collateral many farmers can give that is acceptable to bankers. Many worthy farmers are not willing and some are not able to secure satisfactory endorsers to their paper. Crop liens, except in the South, are not usually very acceptable to banks. The ability of the farmer to give mortgage security to national banks in case of need would often prove a great help. Furthermore, now that a majority of our national banks have savings departments, and that savings deposits might wisely be made withdrawable subject to advance notice, it is not unreasonable that these banks should be permitted to invest at least a substantial part of their savings funds in the same kinds of mortgage securities that are open to the investment of funds of savings banks; provided, of course, that due care be taken to prevent the juggling of accounts between the commercial department and the savings department of the bank.

Another form of desirable legislation in the interest of the farmer consists in the abandonment of our unscientific bond secured bank-note circulation for a scientific system, and in the rendering of our deposit currency more elastic. The more the farmer resorts to bank credit as a means of financing his current business the more will he suffer from the seasonal inelasticity of

our bank-note and deposit currency. Farming business is preeminently seasonal in character; the farmers over the greater part of the country need funds most at about the same times of the year, *i. e.,* the fall and spring. A great increase in the demand for currency and capital, say in the fall, under an inelastic currency and credit system like our own, means to the farmer, highest interest rates at just the time when he needs most to borrow, greatest scarcity of cash at just the time when his need for cash is the most urgent, and prices depressed by a tight money market at the time of the year when he has most to sell. It is doubtful if any class of people in the country would benefit more from a thoroughgoing reform of our banking system than would the farmers.

The apportionment of responsibility between farmer and banker for their not having gotten together better is an impossible task. Although some exceptions must be made, particularly in the Middle West, as a general proposition neither has appreciated the opportunity which the other offered.

The banker must be brought to realize that one of the best kinds of paper in the world is short-time business paper bearing the names of two responsible farmers. He should be an adviser and friend to the farmer as much as to the city customer. He should make the farmer feel that a productive loan to him is not of the nature of a favor reluctantly granted—as so many farmers complain—but rather a business proposition profitable to both, as gladly given as it is received. He should further coöperate with the local business men in preparing financial ratings of farmers, to fill the gap left by the inability, to be hoped temporary, of mercantile credit agencies to rate farmers as extensively as they do other business men of like capital.

The farmer, on the other hand, must be educated by the banker, the press, and the agricultural school and college, to the advantages of credit as a means to the more efficient working of his farm. This should be done with caution for credit is a two-edged sword. The farmer should be encouraged to borrow only when it is very clear that he can use additional capital so productively that it will pay. But what industrious farmer could not use profitably some additional capital every year, could he obtain it at as reasonable rates as does the merchant? The farmer must learn to keep careful accounts. He must be made

to realize that the banks are open to him as to other business men, and that the bulk of the country's short-time commercial loans, as likewise of the agricultural loans of Europe, are made on the very same security he is capable of giving, *i. e.,* two-name paper of honest, industrious business men.

North American Review. 199:796-800. May, 1913.

Rural Credit. Marion Sherwood Lahman.

Vinita, Okla., April 9, 1914.

SIR,—I have just read Mr. Van Courtland's article, "What Is Agricultural Credit?" in the April *North American Review,* and have been moved to express myself on a different phase of the same subject.

The majority report of the American Commission which was sent to Europe last summer to study the rural credit systems in operation in the different countries showed that the members were in favor of pushing the rural credit movement in America. There was, however, a minority which questioned whether our country was yet wholly prepared for such a step.

I was appointed by Governor Cruce to represent Oklahoma, and traveled with the Commission during the entire trip. We were treated with great courtesy and friendliness by the representatives of the different governments, and shown the best they had along the lines of our investigation. Naturally they would not show us the failures, and there are failures, although, as a whole, the co-operative movement in Europe has been a great success. This made some of us anxious to do a little investigating on our own account. Also it seemed to us that the conditions of the home and the social life of the peasant farmers would form an important piece of evidence. This the Commission could not undertake, partly from lack of time and partly from the obvious impossibility of strangers getting at the intimate details of the life of a people whose language they could not speak.

For the purpose of studying this side of the subject I remained three months longer after the Commission went home. The things I learned in that second three months made me feel

that we should proceed with great caution in urging upon our people a system that has succeeded under conditions so radically different from anything we have in the United States.

I do not wish to discourage the co-operative movement, but I do wish very earnestly to call attention to some of the stumbling-blocks in the way.

We know that those farmers who most need credit have difficulty in securing either short or long term loans; that the producer of foodstuffs does not receive a price in proper proportion to the cost to the consumer; that in certain sections farms are being abandoned. Agriculture has not kept up with the times, and beyond a doubt our agricultural conditions must be improved.

The one remedy generally suggested for the sum total of these ills is cheap and easy rural credit. Glowing reports of the success of the co-operative rural banks in Europe have strengthened a belief that our farmers should set up similar institutions. Advocates of the movement assert unreservedly that agricultural credit will increase the yield of the land, reduce the cost of living, and keep our rural population from deserting to the cities. *Quod erat nondum demonstrandum!*

Before entering upon a discussion as to the advisability of trying it in the United States, we should know exactly what the European co-operative rural credit system is, the conditions under which it is operated, and the character and environment of the people benefited. Since these associations vary but little in the various countries, and most of them are built on the Raiffeisen plan, a definition of the latter will serve for the whole. A typical Raiffeisen bank is a registered society with unlimited liability. The principal features are these:

Limitation of membership to one community or village, to secure mutual personal knowledge of the standing of members.

Loans only for productive purposes.

Loans only to members.

Unlimited liability of members.

Permanent indivisible reserve fund.

Short-term credit on personal guarantee.

Credit for long periods with facilities for repayment by instalments.

Absence of profit-seeking, dividends if paid being limited.

Office-holders, except secretary, not paid for their services.

Promotion of moral as well as material advancement of members.

The main idea of the Raiffeisen plan is the using of character as an asset; the giving of credit on personal security; and it follows that the success of a financial institution of this sort depends very largely on the permanency of the community and upon the intimate knowledge each member has of his neighbors' personal affairs, ability, and moral standing.

The first question asked of a man who comes to borrow of a bank of this kind is, "What are you going to do with the money?"

Perhaps the man answers, "Buy a cow."

A committee then decides whether he needs a cow, and, if so, whether he can make a cow pay, before letting him have the money. If he secures the loan, his neighbors watch to see that he uses it for his avowed purpose, and that he takes proper care of his investment.

Supervision of this sort is necessary when a man uses his character as collateral, and conditions which permit of such supervision are imperative.

Rural conditions in Europe and in America are widely dissimilar. The European peasant and the American farmer have radically different habits, ideas, and ambitions. From feudal times the peasants have lived in villages, or communities as they are properly called, since the dwellers are all of one race, and often through intermarriage of a close interrelationship. They have the same customs, the same standards of living, and the same religion. This last is a most powerful bond, since each farming community has its own local church and a resident priest who takes an active interest in the material as well as the spiritual welfare of his flock and is usually the leader in any movement for their advancement. The European farmer rarely moves from one locality to another, but clings to the farm where he was born, and where very likely his father and his grandfather before him spent their lives. This permanency of residence gives the co-öperative spirit the setting it must have for development. His standard of living is low; he eats coarse, cheap food; he uses farm carts that were made by his grandfather; his home has but little furniture; the clothing of his family is made for warmth and wear, with no attempt at style. There is no aping of the gentility, in the matter of clothes, food, or amusement,

no struggle whatever to live beyond class means. All members of the family, including grandmother and the cow, work in the fields, so there is little expense for hired labor. The average peasant is not educated in books nor by travel. He is slow, superstitious, and conservative. Moreover, he has respect for authority, whether exercised by king, count, or priest, and here enters another factor in the problem. For whenever and wherever a co-operative association, financial or otherwise, has been started it has been done, not by the peasants themselves, but by some philanthropic power or person, government, lord of estate, or religious leader. There is in each country some one high in authority who preaches the doctrine of co-operation and sets in motion the local powers.

Italy has Luzatti and Wollemborg, backed by the active interest of Victor Emmanuel; Hungary had Karolyi; Germany had Raiffeisen and Schultze-Delitzsche; and Ireland has Sir Horace Plunkett.

In Italy agriculture receives assistance from the crown and from titled owners of large estates who partly from altruism, partly from necessity, have instituted co-operative systems for the benefit of their tenants. In Hungary all popular agricultural measures are undertaken and managed by the government or by the nobles. In Austria there are both governmental and popular societies. In Germany the Raiffeisen societies have not received government aid, but were started and supervised by persons of philanthropic motives who had more education and better business judgment than the peasants. In France, where the Crédit Foncier does not follow the Raiffeisen type, the rural banks are aided by the state bank. In England there are few co-operative societies, and those there are usually owe their existence to some person of title. In Ireland public-minded lords and ladies are preaching vigorously the doctrine of coöperation to an erstwhile reluctant constituency.

Besides the co-operative credit banks there are co-operative societies for the purpose of preparing and marketing farm produce, creameries, slaughter-houses, and the like; and there are other societies for supplying farm necessities to the members. These things are as important helps to agriculture as is credit.

Again, Europeans farm more scientifically than we do. Instead of skimming over as many acres as possible, small holdings

intensively cultivated are the rule. The land is carefully conserved by fertilization, rotation of crops, and hand cultivation, so that the yield per acre is much greater than with us. Another advantageous circumstance is the dense population, creating for produce a market close at hand, with slight transportation expenses. Perishable commodities like green vegetables and fruit are taken by the producer himself to the market-place and transferred to the consumer without the intervention of commission man or grocer.

Here, then, are the European conditions:

The rural population segregated into permanent communities where each man knows intimately his neighbors.

A community made up of members of one race, interrelated, with the same habits and ideas, the same religion, the same standard of living, and that a low one.

Farmers submitting to leadership of some person of higher class.

Rural credit banks receiving either government or philanthropic supervision.

Co-operation in buying and selling.

Small farms intensively cultivated.

Conservation of the soil.

A dense population making a near market for produce.

All these things are favorable to the growth of the co-operative spirit, and the leaders of the movement themselves say that rural credit has succeeded in Europe on account of the conditions, not in spite of them. For on the Continent co-operation has succeeded. There have been failures, but the movement as a whole has been a success.

Now turn to our own country. We have no aggregation of farmers' dwellings, no communities. Our rural population live in solitary houses usually set apart on account of the relatively large areas of the farms. The farmers do not see one another often enough to become intimately acquainted. As a rule, the individuals of any one district differ in ancestry, religion, ideas, and habits. There is no tie that binds one farmer to another any more than there is between farmer and townsman.

The average American farmer is intelligent, independent, ambitious, eager for new experiences, ready to sell and move on, sending his children to town to be educated, leaving the farm him-

self if speculation offers. He has not a co-operative spirit; he does not wish his individual action hampered, and is averse to indorsing another's liability. He takes orders from no one, resents supervision, and is suspicious of altruistic services. If, say, a banker should try to advise and supervise the affairs of a farming district, he would very probably be told to mind his own business or else asked what he expected to make out of it.

With a mass of people of these characteristics, only classed together because of their occupation, the situation is so diametrically opposite to that in Europe that the fact of the success of the rural credit movement in the latter region can have little bearing on how it would work in this country. Those forms of rural co-operation that have been tried in the United States—farmers' granges, co-operative creameries, and grain elevators—generally have failed. There is no doubt that co-operation on many lines would be a good thing for the farmers if it could be made to work. It will do no harm to urge them into the spirit of the thing. Let them try a co-operative association for buying seed and fertilizer, or a creamery, or a cow-testing society. If a company of farmers could make a success of something like that, they might be prepared to approach the rural bank idea. But if they fail in the simpler operation, how can they be expected to succeed in the greater?

In the older settled farming regions where the population is more stable, a trustworthy farmer can secure a short-time loan from the local bank on his personal note. Without the formation of a co-operative society he utilizes his character as security in the same way as the member of a Raiffeisen bank, and this is possible because the same conditions are present which make possible the existence of that bank.

Lakefield, Minnesota, has a series of co-operative enterprises —bank, grain elevator, creamery, supply house—that are being operated satisfactorily. But Lakefield also has that European factor, a leader. Mr. James Caldwell is a man of keen business ability who first preached the co-operative idea, then founded, then supervised the management of all these associations. Lakefield was willing to be led by the superior judgment of Mr. Caldwell, and has profited accordingly. If we had leaders enough the proposition would be simplified.

It should be borne in mind that the welfare of the rural pop-

ulation does not depend wholly upon credit. A lot of our farmers need to be taught better farming, thrift, and business sense. All of them are not failures, and where one is found who knows how to farm and who puts as much brains into his work as a successful banker puts into his, then we find a farmer who is able to finance himself. Legislation cannot make a man prosperous, but education may. We already have agricultural schools, exhibit trains, traveling lectures, experiment-station bulletins, and farm journals which are doing good work in agricultural education. Townspeople are waking up to the fact that rural conditions affect them as much as anybody. Agriculture is the most indispensable industry, and, whether it flourishes or declines, affects every class; yet it is the one industry which has failed to keep up with the times. Fortunately we are at last aroused to the rural need, and the widespread discussions that are taking place cannot fail to do some good.

The farmer alone cannot work out his own salvation. Successful people in other lines must take hold and help him. But for the very reason that we are all interested in the welfare of farming people the greatest caution should be exercised in urging untried schemes upon them. Rather let us go slowly, one step at a time, until the road is safe and sure under our feet.

Lubin, David. The Landschaft; Co-operative Rural Credit.

A Letter to Senator Duncan U. Fletcher.

In my opinion there is no reason why the Landschaft can not be adopted in the United States with the same safeguarding features that operate in Prussia. The plan of the Landschaft is so simple that it may be explained to and understood by any person of average intelligence. Given state and national laws enacted in the United States on the basis of the European safeguarding method, and the matter becomes quite easy. A body of citizens in a certain locality, presumably neighbors, form a Landschaft operating under state and national laws. As in operation in Prussia this Landschaft has limited functions, restricted in the main to the trusteeship of the mortgages, given it by its members on their lands. On these mortgages it issues the Landschaft bonds for amounts varying from one half to two

thirds of the appraised value of the land. As stated to the American commission at the meeting at Dresden by Hofrat Bach, the "Landschaften are associations of borrowers, in contradistinction to the joint-stock mortgage banks, which are associations of lenders."

The Landschaft transacts no banking business whatever; in fact, it transacts no business except that above stated—that is, it gives the borrower a bond for his mortgage; the borrower then proceeds to sell the bond in the open market and puts the money in his pocket, and that is the end of the money so far as the Landschaft is concerned. All it asks of the borrower is to hand in the interest and amortization on his bond until the debt is extinguished. If he does not do this, the Landschaft takes possession of his land, has it sold to the highest bidder, and returns to the borrower any balance left over and above the amount for which he was given a bond, and the costs. The Landschaft can do this in Prussia without any recourse to a lawsuit. Substantially, the Landschaft in all this has the power of final decision vested in a supreme court. If no such power can be granted, then it would be unsafe to have a Landschaft in the United States; in fact, we could not have it, for the purpose of the Landschaft is to secure long-time loans with amortization at 3, 3½, and 4 per cent, and this interest rate would double or treble itself as soon as doubt as to the validity of titles and other questions between borrower and lender would be considered admissible. The Landschaft in Prussia has no such questions to contend with. The Landschaft directors foreclose without recourse to lawsuits. Their decision is final.

Safeguarding Features

And the question may be asked: Would not such a Landschaft system be likely to lend itself to failure through dishonesty or incompetency on the part of the directors? It certainly would if it were not for the safeguard furnished by state and national laws. In Prussia this safeguard is the *sine qua non* of the Landschaft. One of the members of the board of directors of the Landschaft is appointed by the King—appointed for life—while the other members are in substance semigovernment officials so long as they hold the position of directors of the Landschaft. It is the safeguarding, the rigorous safeguarding, of this system

by the Prussian government that gives the bonds the high value they have in the open market and which makes them saleable at the low rate of interest which is paid on them. Remove this government safeguard and the bonds will slump in price at once, and the interest would have to be doubled or trebled before they would sell. In fact, such bonds would not sell at all, for a bond in the open market, subject to the law of a certain district, administered in that district, may only have a limited and local value. Such a bond would not be liquid; it can not be liquid; and to attempt to make it so would but invite ruin. The need for national government safeguard is clearly indicated in the statement made to the American Commission at the Dresden hearing (June 22, 1913), which, in speaking of co-operative credit societies before national law was enacted for their safeguarding, says:

> All these societies did a good business . . . until a crash came in 1873 and swept away the Vorschuss Verein with it—many were rendered bankrupt, others forced to go into liquidation. . . . In this way the further life of such societies practically ceased in Saxony for the next 20 years or so; but in 1889 came the great German Imperial law, which is to be thanked for the splendid revival of cooperative societies in Germany.

This law provides for the rigorous government supervision of all co-operative credit societies.

So, then, we must either have the Landschaft system safeguarded in the United States by state and by national law and administered as rigorously as in Prussia, or we can have no Landschaft system operating safely in the United States.

In my opinion it will be found just as possible to have the Landschaft system in the United States as it is to have it in Germany; for what will be asked of the United States? Will it be to lend the farmers money? No. Will it be that the Government of the United States should guarantee the bonds? No. What then? The United States will simply be asked to act as umpire between borrower and lender. The United States is to see that both parties adhere strictly to the terms of the contract. That is all. And it may be that some simple mode of procedure can be put in operation toward this end without at all infringing upon the Constitution. Perhaps this can be done through some such body as the Interstate Commerce Commission, or by some

other body created for that purpose. Such body should be granted the right of dealing with the bonds issued in one state and bought and held by citizens of various states of the United States: clearly an inter-state transaction.

I have before me the financial supplement of the Vossische Zeitung of Berlin (June 13), giving stock-exchange quotations Ample space is given for the quotations of the Landschaft bonds. Let us compare a few of these quotations with those given in the same paper for the government bonds of Germany for the same day.

The Difference

Quotations of German Government Bonds and German Landschaft Bonds.

	Government bonds.	Landschaft bonds.
4 per cent	96.00	100.00
3½% per cent	84.80	96.00
3 per cent	74.80	80.50

From this it will be seen that the Landschaft bonds stand higher in the open market than the government bonds bearing the same rate of interest.

The Funds of Widows and Orphans

And now another point. It may seem that the Landschaft system would only be in the interest of the American farmer. This, however, is but one phase of its benefits, and by no means the only important one. There is another section of the community of equal importance to the farmers, if not more so, to whom the benefits of such a system would go; I refer to the widows and orphans. Above all investors these require the greatest security and are at the same time by themselves the least capable of investors. Be it understood that making a safe investment of money is a perplexing and difficult task even for a man well posted in matters of finance. How much the more so for women, who have had very limited, perhaps no experience at all in the investment of money. It is incumbent upon the national government to aid in the safeguarding of such funds; for if it be the duty of government to be policeman, umpire, in the matter of equity between individuals, in the preservation of the sanctity of contracts, it is certainly within its province to spread

its sheltering wings over the otherwise defenceless funds of the widows and orphans.

And in this we are taught a lesson from the example of Germany, The Prussian Landschaft is in the main an institution affording a safe investment for the funds of the widows and orphans. The safeguarding of the Landschaft by the Prussian government renders its bonds so high and the interest so low as to preclude their purchase by professional money lenders. Their almost absolute security, however, renders these Landschaft bonds as safe an investment, and with less chances of fluctuation on the open market, than government bonds, as illustrated by the quotations above given. They are therefore largely bought as investments for the funds of the widows and orphans, and consequently are so securely safeguarded by the Prussian government.

This commendable action on the part of the Prussian government reminds me of an historic event in past times indicating the high humanitarian reach in this direction attained by the people of Israel, and the manly acquiescence in this exalted stand by the great Roman general, Pompey. After a stubborn resistance Pompey succeeded in capturing Jerusalem. He and his soldiers, in an endeavor to recoup themselves for the cost of the war, entered the temple for the purpose of spoil. Going into the Holy of Holies, where he expected to find statues of gods and goddesses, images of silver and gold, Pompey found a room devoid of such statues, for it only contained a great golden candelabra and a golden table for the shew bread. This was, no doubt, a disappointment to Pompey. He was, however, told that there were ever so many sacks of gold and silver in the vault of the temple. On going there he found a great number of bags of gold and silver, all neatly done up with labels on each. "Why," he asked of the priest, "did you not tell me of this treasure before?" "Because," said the priest, "this is the sacred treasure; these bags contain the funds of the widows and orphans of the people of this country. We therefore consider them more sacred than the offerings to God."

Pompey thought for a while, then he ordered his soldiers to wheel about and march out and never touched this treasure.

And this lesson is sufficient. The American government

should safeguard the funds of the widows and orphans, for the American people, like Israel of old, is a righteous nation.

Nor need there be any hesitation at taking such action on the ground that it would be socialistic; if it be socialistic at all it is not socialism of the collectivist order, but it is on the order of Herbert Spencer, the individualist. Mr. Spencer laid down the proposition that the chief duty of government is that of policeman, umpire; that its chief duty is to arbitrate between contracting parties; to judge between them, and to determine the equities.

And what duty can be more just for a government than arbitrament in the case of such a body as the Landschaft, between the farmer, the money borrower, on the one hand, and the widows and orphans, the money lenders, on the other?

In corroboration of the above, I wish to quote the opinion given by the eminent German economist, Prof. Brodnitz, of the Halle University. In reply to my inquiry (June 15, 1913) as to what guarantee there would be for the rigorous supervision of the Landschaft, he replied:

> The best possible, for the bonds at the high prices at which they sell and at the low interest which they bring, do not tempt regular money lenders to invest in them. They will be bought up mainly as investments for the funds of widows and orphans. This being the case there will be every reason to believe that these investments will be safeguarded by the government with such caution and care as to preclude all danger of fraud or repudiation. And this great care and caution would give these bonds a value as high and perhaps render them steadier even than government bonds, especially in times of war and panic, as for instance, was the case in 1806 during the Napoleonic wars, when the Landschaft bonds were high and the government bonds low.

Keeping Out of Debt

Now that the question of rural credits has been so fully placed before the American people, it might be presumed that the American farmer has been thoroughly awakened to its importance. This is, however, far from being the case. It is true that the farmers of America are learning more and more what it all means as time goes on, but at the present writing there are quite a number of farmers who are under the impression that any system of rural credits would be an evil; they are under the impression that the best thing for a farmer is to keep out

of debt of any kind. These farmers fail to realize the fact that for a business man or farmer to follow such a plan literally would require a surplus bank account subject to call, and therefore on deposit without interest. That is, quite a sum of money would have to be lying by idle, doing nothing, and such a mode of procedure is not a gain but a loss. Moreover, but very few farmers have such surplus money, so what must they do? They must buy all they need and pay for their labor and raw material on time—on long time—and this means buying money of the storekeeper, which means paying the highest rate in the world for money instead of the lowest rate in the world. It further means that such a system is not "keeping out of debt" at all, but keeping in debt, and at the highest possible cost for the debt. In fact, the American farmer has yet to learn the simple lesson taught by the experience of the American merchant. Say 40 or 50 years ago the American merchant could not obtain money on open account from the bank, so he was compelled to get into debt with the jobber, and it was then that the jobber took from the American merchant "all that the traffic would bear"; that is, the jobber farmed the merchant, and at the present time the storekeeper farms the farmer, and if the farmer would only know how much in debt this supposed "not-in-debt" system places him it would open his eyes. He would begin to see that the Landschaft system, instead of being a proposal which would put the American farmer into debt, is just the very system which would put him on a cash basis.

If there be any farmers that have any doubt as to the truth of this statement they can readily prove it. Let them go through the various stores in the cities nearest to their farms; let them ask each of the merchants to tell them whether they utilize the credit to which their assets entitle them on the open market, or whether they refuse to make such use of these assets; and the farmers would presently find that there is perhaps not a single merchant of good standing who does not avail himself of such credit. The only ones that are obliged to go without it are those who have a reputation for dishonesty or incompetency.

The Need for the Landschaft

It should be understood that the financial functions of a busi-

ness can be compared to the human breathing apparatus. The business needs a winter stock which must be bought in summer, and a summer stock which must be bought in winter, all of which requires surplus money, more money than the mean average level. There is periodic expansion and contraction. If the merchant has money lying idle, ready for use whenever he needs a dollar, then he is doing business in a clumsy and costly way, and quite unnecessarily if he have a good standing. His assets, if backed by good character, will give him a dollar at 5 per cent a year. With this dollar in hand he can discount his bills at the rate of 5 per cent a day, in fact, he can discount and rediscount with the same dollar many times over that day, and return the dollar to the bank and pay interest on it at the rate of one three-hundred-and-sixty-fifth of 5 per cent for the use of that dollar for that day.

But the most profitable use of the money that the farmer can obtain on the security of his assets will be had in using it collectively, through co-operation, through a corporation formed for that purpose. With the money that the security of their collective assets would give them the co-operative group of farmers, or, if you please, this corporation of farmers, could then perform all the functions now performed by the city commission man and by the trust. In fact, the farmers could be their own trust.

"But," say some, "what need is there for the Landschaft when farmers can act co-operatively without it?" Yes, that is true; they can act co-operatively without the Landschaft, without capital. But what does such action amount to? It is almost as ineffectual for the farmers to act on such lines as it would be for the trusts, were they deprived of their capital or credit. Under such circumstances the trust would come to a sudden standstill; it would cease to be a trust. And, in the final analysis, the farmer without capital must remain subject to the trusts who have the capital. The fact is, the collective assets of the farmers could furnish a capital very much greater than the greatest of the trusts could command. It is only a question of placing their assets in an available liquid form.

The Power of Capital

In 1885 the California fruit growers, for instance, seeing that they were in the hands of a couple of trusts, organized co-

operatively to fight those trusts. The California trusts were each rated at a million dollars and over; the California fruit growers, for this conflict, only had a few hundred dollars to meet current expenses; and as a result of the fight they have been waging all these years, the couple of trusts are still there, doing business at the old stand, with almost the same power that they had in 1885. It was the trusts, each capitalized for a million dollars and over, that did the work, and do the work. It was several million dollars against a couple of hundred dollars, and the couple of million dollars won out and will continue to win out on this line until the end of time.

But note how foolish and unnecessary this fight is. The trust has a couple of million dollars, but the California fruit growers could double and quadruple that couple of million dollars several times over if they were to place their assets in available liquid form—in a form of which the Landschaft system would permit. And so with the farmers everywhere, they could become the distributors of their own products through the medium of the Landschaft system.

The Landschaft would be the mode for getting the money; that is all that the Landschaft could do. The farmers could then form another co-operative association, another corporation, their own co-operative bank, in which they could deposit the money obtained by the sale of the Landschaft bonds. This bank could, in turn, first give the farmers the open account, which would enable them to do business for cash; it could secondly furnish the money for the co-operative distribution of the products of the farm. All this would make it possible for the farmers to form the third and last co-operative group or corporation for the collective purchase of requirements and the collective distribution of their products. There would thus be three distinct co-operative groups, three corporations. First, the Landschaft; second, the co-operative bank; third, the co-operative purchasing and distributing association. The safeguarding proposal by the state and nation would only refer to the Landschaft and not to the other two.

World's Work. 26: 623-5. October, 1913.

Low-Rate, Long-Time Money for the Farms. Ralph W. Moss.

The farmers of Europe are more highly organized to secure financial credit than are the farmers of the United States, and they get money at lower rates and for longer terms. The various governments have given cordial recognition to the farmers' organizations and in many ways have extended aid to the movement. As the coöperative credit associations have already spread over the Continent and are now being organized in Ireland, we may safely accept the universal testimony that these organizations sprung from the necessity for a better system of rural credit than the commercial banks offered.

Farm credit differs essentially from commercial credit. The period between the loan and repayment must be longer. The farmer cannot make his turn-over as quickly as can the merchant. In rural credit that properly serves productive agriculture the repayment of a loan should not be demanded until the maturity of the crop in which the borrowed capital is invested.

The essential problem in establishing such a system is to be found in the replacing of the money which is lent for these considerable periods. Of course a banking association must necessarily accept deposits in order to secure funds. This is true of the coöperative loan associations of Europe, and 90 per cent of the money which they lend to their members is placed in their care by depositors. These deposits are accepted in the same way that similar transactions are conducted by American bankers. They can be withdrawn in the same manner that deposits can be withdrawn from American banks. When they lend this money to farmers they must have a way of replacing it if their depositors wish to withdraw. The European loan associations replace their capital by indorsing the farmers' notes and by rediscounting these notes to meet the demands of their depositors without compelling the repayment of loans made to their members. In this respect, the banking laws of European countries differ from our banking laws. For example, the Bank of France has the legal right to issue bank notes based upon commercial paper which bears three indorsements. In order to meet this legal requirement the farmers organized the small association composed of neighboring farmers. These small units were then

grouped around a regional or central bank. The system was now complete because a chain was constructed to join the farm with the government bank. A farmer presents his promissory note to his association for discount. His neighbor acts as his security by indorsing this note. This is the first indorsement. The loan association then adds its indorsement and presents the note to the regional bank. This guarantee of the association is the second indorsement. It now only remains for the regional bank to add its indorsement and forward it to the Bank of France, which issues bank notes for it. The local loan association discounts the farmer's note, the regional bank rediscounts it, and the Bank of France rediscounts it again in the form of an issue of bank notes. The farmer gets his money at low rates for long periods and yet the ultimate lender, the Bank of France, takes little risk, being protected by an original borrower and two indorsements. In this way, also, the depositor in an association is enabled to receive his money from the association before the loan is repaid by the farmer. In substance, this element is embodied in every system of rural credit in Europe. It is evident that it is the privilege of rediscount rather than the coöperative organization which is the foundation stone of this credit system. Coöperation is the method by which the special provisions of law are being utilized for farm purposes.

As our banking laws have not permitted the issue of currency against farmers' notes, no matter how many times indorsed, there will have to be modifications if we are to organize effective systems of rural credits after European models. But if these changes are made our existing banks can utilize these rediscount privileges as effectively as can coöperative associations. There are as many chartered banks in the United States per thousand population as there are in Germany, with its coöperative associations. At present, neither chartered banks nor coöperative associations in the United States can lend deposited funds and meet the demands for the return of these funds from any other source than repayment by the borrower. It is useless to argue whether banks or coöperative organizations are best adapted to advance credit to farmers until it is made possible for such business to be transacted successfully. The first requisite, and it is one on which all persons can unite, is a change in our banking system which will permit rediscounting of solvent loans.

This power of rediscount should be placed under governmental control. I heartily indorse that portion of the pending currency bill which places the Secretary of Agriculture on the Federal Reserve Board. It is a great step forward in currency reform from the standpoint of agricultural credit and agricultural equality in the money markets of the United States.

Conceding that the proposed revision of our currency laws will give every proper facility for the organization of agricultural credit, it will become a question for our bankers to decide whether they will offer this credit or, by refusal, compel the organization of coöperative credit associations. It is abundantly proved that such organizations are safe and practical. It is simply a matter of organizing after models which have been proved by years of successful experience.

A modern system of land mortgage credit is of greater importance to our nation than an improved system of personal credits. Our farmers are facing an era of extraordinary expenditures if they keep abreast of the times. The depleted fertility of our farms must be restored; better roads are to be constructed; the quality of our live stock is to be improved, and their numbers greatly increased; better methods of tillage are to be adopted; higher standards of agricultural education are to be accepted; and, finally, the young man is to be encouraged to acquire ownership of the land he cultivates so as to avert the growing menace of landlordism. These expenditures in the aggregate will amount to a stupendous sum and their repayment should be distributed over a long period of time. The rate of interest should be reduced to the level of other financial undertakings of like magnitude. In Europe, money is available for such purposes at nearly as low rates as the governments can borrow for national purposes. This is as it should be. In the truest sense, the rebuilding of agriculture along permanent lines is a national expenditure as vital to the future supremacy of our nation as is the maintenance of our army and navy.

European experience has conclusively demonstrated that land mortgage bonds can be sold in large volume at low rates of interest. The proceeds of these bonds can be lent to farmers on long-time payments at a low rate of interest, with a small payment on the principal which ultimately will wipe out the debt. In France, the annual charge for such money, including all prin-

cipal, interest, and commission charges, is less than 5 per cent; perhaps this rate will be a fair average for the Continent. The government lends money to farmers for special purposes at a lower rate, but I am speaking of the ordinary commercial rate for the repayment of a mortgage loan. I know that it is difficult for an American farmer to understand that a loan will be repaid in full by annual payments which are lower than our present interest charges alone; but it is a fact that can easily be demonstrated.

The usual method of negotiating these long-time mortgage credits is by fixing a rate of repayment which cannot be changed during the life of the loan. This rate of payment includes an allowance for current interest due on the loan, an amount to be kept by the bank for administration, and a certain sum to be credited on the principal. In the language of the bank, these are called "interest, administration, and amortization."

The standard length of time in Europe for a long-time loan is 54 years. For such a loan at the present time the rate is 4.85 per cent, divided as follows: interest, 4 per cent, administration, .35 per cent, and amortization (payment on principal) .50 per cent. This rate will pay both principal and interest and repay all charges due to the bank in 54 years. As this will seem almost incredible to some students, I will give a concrete illustration of how it works. It does not depend upon compound interest, but upon the fact that though the rate of yearly payment remains the same, the charge for interest and administration is constantly decreasing because they are computed on the principal sum which is constantly being repaid. Therefore, the proportion which is applied toward the repayment of the principal is always increasing.

For illustration: If the debt were $1,000, the debtor will pay $24.25 every six months. Of the first payment, $20 will go for interest, 1.75 belongs to the bank, and $2.50 is applied to the repayment of the principal. When the debt is half discharged, however, this distribution will be greatly changed. The borrower will pay $24.25 as usual; of this amount, only $10 will go for interest, 88 cents will be retained by the bank, while $13.37 will be applied to the discharge of the principal. The final payment will be almost wholly devoted to the payment of principal as the first one went largely to the payment of interest. In this way,

one half of 1 per cent will repay the principal in 54 years, provided a constant payment is maintained on the principal for interest during the entire period. The manifest advantages are so great that we should press this matter most vigorously.

This system of making loans for agricultural purposes was first undertaken by coöperative mortgage associations in Germany. The joint stock banks, representing private capital, accepted this plan of transacting business as soon as it was demonstrated that farmers by coöperation could secure capital in the world's markets at fair terms. Both systems have been in successful operation for many years. The joint stock banks have found land mortgage business profitable and safe from a banking standpoint. Here, again, is a question of policy presented to American bankers. Land mortgage bonds secured by mortgages payable on the amortization principle will be introduced into the United States. The future development of our nation imperatively demands it. There are two models, each of which has been proved by years of successful experience. One is a bond issued against a first mortgage on real estate and guaranteed by an association of farmers who are the borrowers—the coöperative plan; the other is a bond issued on like security and guaranteed by a joint stock bank which is an association of lenders. Unless our existing banks adopt the latter method of financing the farmers of America, coöperative organizations among the borrowers will inevitably grow up because the principle of self-help will compel it.

I have discussed only the main principles involved. The question of personal credit falls within the domain of federal legislation while that of land mortgage goes more directly to the state legislatures. And there will have to be many changes in many of our state laws before that business will be on a satisfactory basis.

Nebraska Farmers' Congress. Official Year Book, 1914.

Can European Rural Credit Systems Be Made Applicable to the American Farmer? Gordon Jones.

European rural credit systems follow the natural division into short-term personal credit societies and long-term land mortgage

associations. The organization of cooperative societies for short-term credit was forced upon the farmers because of the lack of other banking facilities. Capital had not sought investment in country bank stock. Therefore the farmers had no place of deposit or obtaining credit for their temporary needs, and the organization of the cooperative credit society was the result. In lieu of capital stock, credit is pledged—sometimes with limited liability of its members, but more often unlimited. That is, when a farmer becomes a member of a cooperative credit society (or bank as it is called in some countries, though in others the use of the word "bank" by them is prohibited) he pledges his entire worth for the debts of the society or bank

Short-Term Credit System

In Germany these societies have reached their highest state of development. Throughout that entire Empire the number of regular banks, including these cooperative short-term credit societies, equals one for each 4,000 population, or one for about each 800 families. This is practically the same ratio of banking institutions to the population that exists in the United States. It is therefore obvious that this form of rural cooperative banking occupies the same field in that country that is occupied by the country banks in this. It is not a difficult task to determine the holdings and the financial standing of a borrower, not only because of the intimate knowledge of the conditions of every farmer by every other farmer, but because of the simple methods of property assessment and title registration. Property is assessed at full value, which valuation is generally used as an appraisement or for a basis of credit.

These short-term credit societies throughout continental Europe are generally federated, and own and operate a central society in some large commercial center. There are hundreds and sometimes several thousand thus federated. There are no established rules governing these individual societies, each being left free to make its own by-laws, by them termed "constitution," for the conduct and regulation of its own business.

The central does reserve the right of supervision and examination as a creditor, for these local societies obtain needed financial assistance through the central; that is, the central extends loans to or rediscounts for the local societies. When its own

resources are exhausted it in turn obtains help either from the banks of issue or some large commercial bank. The local societies deposit their unemployed funds with the central. When demand is light in one section and strong in another the central thus serves as an intermediary between the locals in equalizing the condition.

The central society has a capital, furnished by the local federated societies in proportion to their own membership, and is thus owned by them, though they exercise little or no supervision or control over the central. This has proven a weakness of the system as I shall prove. The central is meant to be the servant and not the master of the small societies, and is therefore opposed to the branch banking system where the central bank owns and controls the branches. These local societies assume no liability for the debts of the central or of one another, though the individual members may have unlimited liability for the debts of their own local society. This unlimited liability, it should be kept in mind, is in lieu of a paid-up capital stock.

European cooperative credit societies operate without direct profit to their members, their object being to render financial assistance and advice so that the members may make their profits upon their individual efforts. In some cases the government has made liberal advances to such societies upon a nominal or no interest charge. When they are thus fostered, the government exercises certain control and supervision over them. This is objected to by others, who operate without government assistance of any kind. Such aid as involves governmental control over their operations is objected to by some, as tending to retard the initiative of the people. We found many that had originally accepted of government aid, had given up such aid and were now on their own initiative and responsibility, preferring this freedom of operation to the red tape and unnecessary restrictions that usually follow where a government undertakes the control of private operations—mind, I say control, not regulation. I am a firm believer in government regulation, but not control over private capital or activities.

Losses are sometimes sustained by these rural short-term credit societies, just as losses are sustained by our country banks. When losses occur they are met out of the small profits, if sufficient; if not sufficient, by an assessment; if too disastrous, the

society would be forced to liquidate, and general distress would follow in paying up security debts and meeting the unlimited liability for all obligations of the society.

There are no legal requirements upon banks or credit societies for a cash reserve throughout Europe so far as ascertained; excepting the gold reserve required of the banks of issue. Therefore all European banks, the large commercial institutions as well as the small credit societies, can be of the greatest possible benefit to the people, for they are not required to lock up a large part of the country's circulating medium in a useless, so-called, reserve, which is not allowed to be used to even meet the contingency for which a reserve is supposed to be held. While seeking for methods of improving our financial system and for lowering interest rates, it would be well for our lawmakers to give serious consideration to the abolition of useless reserve requirements, provided a sufficiently strong credit expansion and note-issuing power is created. So long as our banks are required to keep a considerable portion of their deposits in idle and useless reserves, interest rates will remain proportionately higher than necessary. There are hundreds of millions of dollars of the country's circulating medium thus uselessly locked up.

In addition to operating without reserve requirements, the European rural cooperative credit societies are organized, as before stated, without capital and without the view of profit. The loaning rate is regulated just to meet the expenses of operation. Such expenses are held down to the minimum, with little or no taxes to pay. The cashier draws but a nominal salary, usually getting his livelihood largely from other sources, and holds his position as a secondary matter. The president and directors serve without compensation. Unless there is considerable volume of business no bookkeeper is employed. Bookkeeping is simple, as checking is not done as it is done with our country banks. Such societies seldom cash or receive for deposit checks or drafts on other banks. Doors of the small societies are opened on stated days—once each week or sometimes semimonthly. The furniture and fixtures account is nominal, as usually a table, desk, and chairs constitute the entire equipment—often not even a safe. Sometimes a room in the home of the cashier is used as its place of business. I doubt if our American farmer would be satisfied with this sort of banking facilities,

and at the same time render himself liable for all the deposits and debts of the bank, in order to be able to obtain his money at a less rate of interest; or at least I doubt if the more responsible farmer, who would give strength and standing to such a bank, would be.

All these facts should be considered in comparing interest rates paid by European farmers with those paid by the American farmer for short-term personal credit.

Undoubtedly the fact has already been noted that European cooperative rural credit societies are associations of borrowers. This is one of the most marked distinctions between the European and American systems, for in our country, banks are associations of lenders. Our national and state laws either restrict or prohibit bank owners from borrowing from their own bank.

Our investigation proved, beyond doubt, that in order to keep pace with European countries we need in the United States a change in our present financial system that will permit our banks to be more liberal with their borrowing customers. I do not mean to be more liberal in the acceptance of security, but to be enabled to be more liberal in credit expansion for the purpose of facilitating the maturing and marketing of crops. Our country banks are mostly owned by the farmers themselves, and as we have about the same ratio to the population that exists in the country where cooperative societies are most highly developed, I can not see the necessity for establishing an entirely new system of rural banking for the United States for the purpose of rendering short-term personal credit to our farmers. Our present banking laws, if modified to enable the national and state banking systems already established to respond to the requirements of the farmer, in a manner I shall endeavor to point out, would amply suffice.

Our crying need is the creation of an elastic currency and a safe credit expansion system. It is to be hoped that in the enactment of our new financial system the peculiar needs of the farmer for the maturing and marketing of his crops will be met.

It should be kept in mind that "the maturing and marketing of crops" contemplates as well the maturing and marketing of live stock and its by-products, for the reason that a large part of our crops is thus marketed. The bankers of this country

have realized for years the inadequacy of our present financial system. Contrary to the operations of the banking systems of European countries, we have a fixed or static circulating medium, and no method of increasing our circulation or of obtaining credit in times of greatest need. It is almost inconceivable that a great nation like our own should have for such a length of time left its agricultural, commercial, and industrial interests so poorly provided for. This lesson has been impressed upon our minds time and again in the repeated needs for an increased money supply, both in the moving of crops and in the demands of an excited banking public.

The pending bank and currency bill, if enacted in its present form, will fall short of the needs of our country banking and agricultural interests. From the standpoint of the farmer and stockman a serious objection to the pending measure is the restriction placed upon the time limit of paper to be accepted by the proposed federal bank for rediscount. It is easily understood why it should be necessary to require reasonably short time and perfectly liquid paper; but I see no reason sufficiently strong to restrict the maturity so that little of that held by our country banks would be available, and especially that made by our producers, who require a longer time to mature and prepare their products for market.

A fixed rule is not applicable over the entire United States for the reason that conditions and requirements vary greatly in the different sections. In some sections, at certain seasons of the year, the time limit might suffice, while in other sections, at the same season, the time limit would not suffice. The time limit named, however, would always be adequate for the distributor or the middleman. The contention has been for years that the American producer is handicapped and that the middleman is absorbing too much of the price paid by the consumer. Why make it still easier for the middleman to finance himself without at the same time giving the producer equal facilities? It should be kept in mind there exist no such restrictions upon the producers' paper in European countries, and it is inconceivable that our lawmakers will write upon our statutes, in the present-day light, a new banking code that will not give our farming industry an equal show with other industries needing credit facilities.

Long-Term Credit System

Passing from the short-term credit societies as organized and operated in European countries, we have now to consider the long-term mortgage associations as another phase of the subject under discussion. Here we have much to learn from European methods. It is a recognized fact that, in our country, financiers have devoted themselves more to the financing of railroads, utility corporations, and urban building than they have to financing the farmer.

We should keep in mind, in discussing this subject, the relative importance of the city and the country. Destroy the city and the country surrounding it would soon rebuild that city; but destroy the country surrounding a city and the city could not rebuild the country, but of itself could not long survive. The more prosperous the country, the greater and more prosperous the city, and as the city becomes greater and more prosperous it is in stronger position to render financial assistance to the country. There is, indeed, an interlocking of interest and a consequent need of "cooperation" between the city and country, and the best results can only be obtained by a spirit of harmony and proper understanding.

The builders of our cities have been able to obtain financial assistance, the payment of which is extended over a long period of years, upon buildings erected even upon leased grounds. The value of nearly all of our investments and properties depends chiefly upon the success of our agricultural interests. Yet we have never devised a satisfactory plan to finance those engaged in that industry to safely carry themselves over a sufficient period to retire even a fair portion of the purchase price of their fixed investment.

I am not criticizing those engaged in the farm loan business as now conducted. A market has been established for real estate security on the present basis, and our lenders are handling this business along the only recognized method employed in America.

It would not be feasible to adopt the long-term plan with small partial payments where the loan itself is lodged with the individual investor. He will not accept of a loan on these terms, and it would be only through the intermediary of some bond or

debenture issuing organization that funds could possibly be obtained for the farmer under such conditions.

The European countries have adopted a workable plan for their farm owners by the organization of their long-term mortgage associations, which are not banks of deposit. This system contemplates the return of the principal in small amounts at the same time interest is paid, with the option of repayment of any larger amount, or the whole, at any interest pay-day.

Only income-producing property of dependable value is loaned upon. The annuity to be paid is fixed, which includes the amount of interest and amount the lending association requires for its expenses and profits. The longer the loan the smaller the annuity. When speaking of rates, the European farmer and money-lender on land mortgages always includes the amount to be paid in amortization. Thus, should he tell you the rate is six per cent per annum, he would mean that $60 on each $1,000 borrowed is the amount to be paid each year, including interest and part payment of the principal in order to retire the loan by the time of its maturity. This annuity remains the same throughout the life of the loan, but as the amount of the principal is gradually reduced the amount necessary for interest becomes less each year, and the amount applicable for amortization increases correspondingly. It is this calculation that retires the loan within a less period than at first impression seems possible. It is the operation of compound interest reversed.

There are some matters that enter into the negotiation of these long-term mortgage loans affecting interest rates that do not appear on the face. For instance, in the operation of some of these land-mortgage associations the borrower is given bonds issued by the land-mortgage association in exchange for his mortgage. The borrower accepts the bonds at one hundred cents on the dollar, and often has to market them himself. They, however, generally, have a ready market on the Bourse or with commercial and private banks, but do not sell at par when drawing the low rates of interest.

Some of the land-mortgage associations have perfected arrangements for cashing their bonds thus accepted by the borrower, through commercial banking institutions which they themselves control or with which they are affiliated, so that their borrowers need not be forced to find their own market.

Originally the land-mortgage associations came into existence through a combination of borrowers who united for their mutual assistance. As at first organized they were co-operative to the highest degree. The owners of farms severally mortgaged their properties to a co-operative association and the collective mortgages thus became liable for the debts of one and all. The association, with no other capital than possibly a nominal membership fee charged, would issue its own bonds, allowing each borrower the use of such bonds to the extent of his individual needs from time to time, to the limit of his own mortgage. In retiring his loan to the association, in whole or in part, the borrower could repurchase the bonds on the market or from whatever source available, delivering them to the association in payment of his loan or could pay cash, if preferred. If the latter, the association would call in the equivalent amount in bonds.

Often the borrower would not ask for the cancellation of his mortgage, leaving it on record in case of future needs, against which he could draw bonds in such denominations as needed from time to time. This system has now been modified so that each borrower is responsible only for his own individual debt, but remains the same in all other respects.

Many of the cooperative land-mortgage associations are fostered by government grants, loans, or special privileges of law. Indefinite loans are sometimes extended them by the government without interest, or at a very low rate, as was mentioned is sometimes done for the short-term rural credit societies.

In Germany these associations are granted exceptional legal privileges, and in foreclosing a mortgage it is unnecessary to go through any process of law, as the right is given to immediately dispossess the borrower. He has no redress at court, the association being a law unto itself. There are no redemption privileges given the borrower, neither has he any exemptions. The maintenance of the farm and fertilizing and productiveness of the soil are conditions in the mortgage. In case this is not done it is a cause for foreclosure, the same as default in interest or amortization payments.

Private capital is now successfully competing with these government-fostered associations in the organization and operation of long-term mortgage banks. Such privately capitalized as-

sociations do not receive or desire government subsidy. They are less hampered in their operations, and having laws that fully protect their securities, prefer to operate independently of the government.

Bonds issued by both government-fostered and privately owned land-mortgage associations sell on a substantial parity. In some countries, Hungary particularly, an especial effort is made to place these bonds outside their own country, in order to bring in new capital, but in Germany exactly the opposite is pursued. They have proven to be such safe and desirable securities that the savings of the working class as well as trust and court-controlled funds are invested in them.

The large commercial and private banks often underwrite the issues, replacing them with the investing public. These bonds command a price, after reaching the market, near that commanded by government bonds, and usually sell on an equality with state or provincial bonds, and on better terms than industrials.

In endeavoring to make applicable any long-term mortgage system for this country, the fact, as already noted, must be kept constantly in mind that the farmer of America is quite a different individual from the farmer of European countries. There he operates under nominal expense as compared with the farmer in this country, as well as operates on a much smaller scale. The European farmer applies himself to a greater degree and is more scientific in the handling of his land and products. While the average farm in Europe is small, varying in size with the different countries, about twice the yield is obtained per acre that is obtained by the American farmer, owing to intense cultivation and more scientific methods. The earning capacity of the European farm is an established fact. That in turn establishes its value. So settled are the values that the basis of assessment for taxation purposes, which is made at one hundred cents on the dollar, is generally used as a basis for valuing property when granting loans. Among the most important advantages for facilitating loans on real estate in Europe is the title-registration law, which, in effect, places the government behind the title to all property, and is an important factor in obtaining low rates of interest.

It must be understood that the method to be pursued in this

country under existing conditions, should any long-term mortgage system be devised, necessarily would be quite different from the European methods. The rate of interest to be paid by our farmers would of necessity have to be higher, because of the expense incident to appraisement; because of exemption and redemption laws; because of the general lack of title-registration laws and the consequent need of abstracting and title examination; because of the necessity of safeguarding the loan by watching the security that has not such a stable or definite income-producing value over an extended period; and for the further reason that a market would have to be built up for this class of investment. Whereas, throughout all European countries this class of investment is now well-established, their land-mortgage associations having been in successful operation for over a century without the loss of a dollar to an investor.

However, I do not believe the need of the American farmer is so much for a low rate of interest on his mortgage loan, if he is furnished a reasonable one, as for a method that will give him a sufficient period to work out of debt from the income of his labor and invested capital, without being compelled to obtain several renewals, paying new commissions, abstract charges, attorney's and recording fees with each renewal.

Through operation of the long-term amortization loan system the European countries have revolutionized the land ownership, passing titles from large tracts of landlordism into small tracts belonging to the individual farmers, making permanent home owners out of former tenants. They have assisted in making farm life more inviting and in improving farm property to a high state of cultivation, thereby increasing the productivity of the land, and, as a natural result, enhancing the value of the land itself.

I trust I have made clear the general underlying principles of the two distinct European systems for extending rural credits. I have purposely avoided technical terms and foreign names, in order to present the subject in such manner that I felt might be most readily understood.

In establishing any such system in this country, all tendency toward paternalism will have to be eliminated, for the idea is repugnant to our form of government, and besides our farmers do not desire to be pampered. All they ask is an equal chance with those engaged in other industries.

It is my firm belief that no European cooperative system for obtaining short-term personal credit can be made generally applicable to the American farmer. In addition to the unnecessary burden of assumed guaranty of one another, the plan itself is unnecessary; because with proper modifications of existing systems, our present country banks, capitalized and already in the field, holding the unemployed funds of their respective communities, owned largely by the farmers themselves, can be made to meet all legitimate requirements for short-term personal credits, where such credits could be safely extended under any system operating upon deposits.

But I do believe we can mold a long-term land-mortgage system out of some of the methods employed in European countries that will be applicable to the needs of the American farmer. Not on the cooperative or mutual guarantee plan as practiced in Europe, however. I am confident we can devise a plan which will bring about a system of cooperation, throughout a state, without the mutual guarantee feature; one that would at once inspire the confidence of the investor in farm securities and receive the hearty support of the country bankers as well as the city financiers, at the same time putting the control in the hands of the farmers themselves. It seems to me this would be an ideal system of "cooperation," and no system is going to prove a success in this country without such general cooperation. I admonish you to keep in mind that the word "cooperation" is being overworked and played upon by the erstwhile self-advertising politician. What we need is sane, safe, and conservative consideration of this matter, and a practical, not theoretical, a business, not political plan that can be worked out.

Everybody's. 31:61-4. July, 1914.

Unfinancial Farmer. John Parr.

Of all the many kinds of money-borrowers in the world the American farmer in the average is the readiest and the worst. The private banker is his immemorial enemy. During the debate in Congress on the Federal Reserve Act, under which the national banking system of the country now is reorganizing, I

surprised a Republican farmer in the act of beating the fence with his hat and shouting for Wilson.

"What's happened?" I asked.

"I'm for Wilson," he said.

"Why?"

"Just read in the paper that he's going to make these national banks lend money on farms."

He was the least efficient farmer in the township, as I knew, and before the spring opened he got rid of his mortgage by moving away from it. He was succeeded by an industrious young married man who rented the place for three years from the mortgagee at too high a rental, and is bound to fail with it because he can not afford to put into the ground more than he can be sure of getting out of it again before his lease expires, which means that he will leave the farm in no better condition than he found it, having got in the meantime a very thin living.

Tenant-farming on short leases is desperately poor use to make of land. If this young man could borrow money at 4½ or 5 per cent interest to buy that farm, with the privilege of paying back the principal in small annual instalments spread over twenty or thirty years, he would be a proprietor instead of a tenant, his heart would be in it, the soil would be coddled, and where now the yield of corn is not more than twenty-five bushels to the acre, it might easily be fifty.

But he is without any capital at all—that is, financial capital. He has only his strength and youth and his willingness to work. It is hard to borrow on that kind of security, though it is often the very best a lender could have.

The difficulty is that the lender is seldom in a position to know the personal character of the borrower. He takes his security in the land and its improvements, at 50 or 60 per cent of their appraised value. He acts through an agent, who reports, not on the borrower, but on the property. A farm, say, is rated as worth $5,000; the agent advises his clients to lend $2,500 on it, at 5 or 6 per cent, as the rate may be.

If the young man goes to an agent and says: "I want to borrow $5,000 at 5 per cent and pay it off in twenty years," the agent, whether he represents an individual client with money to lend or a financial institution or a mortgage-loan firm, answers that twenty-year loans are unknown. Farm mortgages are placed for

periods of three or five years. Then if the young man says: "All right; I want to borrow $5,000 for five years," the agent will have to say, "That is impossible. Your farm is worth only $5,000. The most anybody would lend you on mortgage would be $2,500 or possibly $3,000.

It is useless for the young man to say that he will be industrious and saving, as his predecessor was not, and that he is an efficient farmer, as the other knew not how to be. None of that passes as security for a loan.

But even if it were possible for him to borrow the full value of the farm, on a long-term mortgage, as it is in some countries of Europe, notably Denmark, where the government lends the money, he would yet be in need of another kind of credit, called, for distinction, short-term credit, such as a merchant obtains at his bank.

He will want to buy fertilizer in the fall and winter, and seed in the spring, and perhaps some pigs and a cow, all of which are needed to bring the productivity of the farm to its maximum. If he can borrow the money for these purposes, for periods of a few months or a year, paying it back as the produce is sold, he will gain more for himself and enrich society. That is as every business other than farming is conducted. The manufacturer or the merchant sells long-term bonds for his *fixed* capital, and then borrows currently at the bank for what the accountants call his *working* capital.

In theory it is the same. In practice it is very different. The merchant or manufacturer borrows both *fixed* and *working* capital much more easily and at lower rates of interest than the farmer can, and in thousands of cases the proportion of his own capital to that which is borrowed is much less than would be expected of a farmer. Indeed, the big gains in commerce and trade are made by those who know how to keep that proportion small—how to prorate the earnings of borrowed capital over a very small proprietor's investment.

Thus, if a man has $10,000 of capital and wishes to engage in a business the normal profits of which are 10 per cent, and can borrow $90,000 at 5 per cent, he has in his service $100,000. His gross profit will be $10,000, out of which he pays 5 per cent ($4,500) on the $90,000 which he has borrowed, and has $5,500 for himself. That is 55 per cent on his own capital of $10,000.

That kind of finance has been impossible for the farmer, to whom capital is not only much dearer but much less accessible. When he borrows *fixed* capital, on a mortgage, he pays 1 or 2 per cent more for it than the interest rate on corporation bonds, which represents the *fixed* capital of other business; and, besides, it comes due every few years—either three or five—and has to be renewed, whereas the corporation bond runs for fifty years and maybe longer.

And when the farmer has to borrow *working* capital he pays a price which in business would be prohibitive. Instances of negro farmers in the South paying 60 and 100 per cent a year for small loans are not unknown; instances of 15 and 20 per cent are common all over the country.

The farmers do manage to borrow capital of both kinds. Their total indebtedness in this country is estimated at nearly $6,000,000,000, of which, roughly, one-half is owed on mortgages and the other half to banks and implement firms and storekeepers and merchants; but they borrow in the most wasteful manner, and the cost of it, mind you, is a burden upon the cost of food.

The Reasons

The reasons are obvious enough. Commerce borrows capital more cheaply and more easily than agriculture because, mainly, commerce is concentrated. The banker knows his commercial borrower personally, sees him every day, and is continually hearing reports on his conduct; or, if that is not the case, then the commercial borrower at a distance has a credit rating in Dun's or Bradstreet's. With an agricultural borrower it is different. The farmer comes to town occasionally, and the banker who has loaned him money on his note may not see him again until the note is due.

The farmers ought to manage their own credit better. That is clear enough. Without legislation of any sort they could form voluntary credit associations to guarantee each other's liabilities, and undertake not only to vouch for the character of borrowers but to see that the money borrowed is properly spent and safeguarded; they could go so far as to report regularly to the bankers from whom they obtain accommodations. Bankers would be very willing to lend money on the credit paper of such associations, and at much lower rates of interest than any individual

borrower could obtain. Collective responsibility makes perfect security, and, though many farmers are reluctant to think so, the quality of the security largely determines the rate of interest.

Or they could form credit unions of their own, with small capital, even with borrowed capital, and help themselves. Jewish colonists have done this very successfully already in several states, under the direction of Leonard G. Robinson, general manager of the Jewish Agricultural and Industrial Aid Society.

But this involves a degree of cooperation of which the American farmer so far has seemed incapable.

To a government official intensely interested in the uplift of agriculture, especially in this matter of freer and cheaper capital, I put this question:

"Is the American farmer at heart a co-operative animal?"

"He can be taught," was the answer. "My notion is that the way to teach farmers the use of cooperative credit is to demonstrate it as you do agricultural implements or scientific cultivation. Give them the examples and let them think. The farmers, as you may never have happened to consider, are an intellectually idle class. A great deal of their work keeps them physically active and mentally idle. A man plowing his field, one long furrow after another, thinks enviously of the rich, imagines all the world to be in a conspiracy to defraud him, and remembers everything he has read in his newspaper. He reads the newspapers, especially the radical ones. And he dreams of something to make him rich—suddenly rich. He wants more land, not to till but to hold for a rise."

"He is at heart a speculator?"

"Exactly."

These are some of the elemental aspects of that vast and difficult subject now going under the name of Rural Credit.

It is in two parts. There is the problem of land credit by itself. That is to enable the farmer to borrow *fixed* capital at low rates of interest on long-term mortgages which he pays off in small annual instalments.

Then there is the problem of personal credit. That is to enable the farmer to borrow *working* capital on the security mainly of his character and industry.

Besides, there is the much more debatable question whether the land credit, on long-term mortgages, should be designed

for the *solvent* farmer only, or for the *insolvent* farmer too. The *solvent* farmer is one who has some financial capital, and needs only to be assisted. The *insolvent* farmer is one, like the young man at the beginning of this article, who has no financial capital at all and needs the whole start. A land-credit scheme under which one could borrow at low rates of interest only 50 per cent of the value of one's land would be a great benefit to the *solvent* farmer; but it would still leave the *insolvent* farmer where he is, working for *solvent* farmers or as a tenant.

That is a question of public policy which has been dealt with in various ways abroad. In Russia, Denmark, and France the government has used its credit directly to put land into the hands of *insolvent* farmers. England is doing it for the Irish farmers, of whom in the last seven years 385,000 tenants have become farm-owners. They have eighty-seven years in which to pay the government back.

To Buy Back Our Heritage

That the European Land Problem should have arisen in this country while those are still living who saw land free for the asking and approved of granting millions of acres of the public domain in the form of subsidies to railways, shows how rapidly the world fills up, and how precious land is. Many are now demanding that the government shall lend people the money with which to buy back the land it gave away to the railways.

Two years ago the Southern Commercial Congress undertook for the first time in this country a comprehensive study of the whole subject of Rural Credit and appointed a commission to see what had been attempted and accomplished abroad. Then the government appointed a commission to cooperate.

A mass of evidence was collected in Europe, where for over a hundred years farmers had been cooperating to obtain credit, to market their produce and to buy their supplies. When the commissioners came home and made their report they began to learn things they had never known before about the American farmer.

At last Senator Fletcher and Representative Moss evolved the Moss-Fletcher Bill, which was submitted to the President, amended by the Secretary of Agriculture, and then reported to Congress. Joint hearings were held before sub-committees of

the Committees on Banking and Currency of both the Senate and the House of Representatives.

The Moss-Fletcher bill provided for the creation of farm-land banks, to be formed by any ten persons, to be either private stock banks or cooperative, to have a minimum capital of $10,000, and to be vested with specific powers as follows:

To receive deposits up to 50 per cent of their capital and surplus; to act as depositories for the Postal Savings funds; to make first-mortgage loans on farm lands up to 50 per cent of their appraised value; and to issue and sell to investors collateral bonds secured by those mortgages, the amount of bonds any one bank could issue being limited to fifteen times its capital and surplus.

Thus, a farm-land bank, with $10,000 capital, could buy first mortgages and issue collateral-trust bonds against them up to $150,000.

The objection to this bill on the part of economists and bankers and men of affairs generally was that a lot of small banks all over the country would be issuing bonds, individually, so to speak, as farmers have always borrowed money, and that investors would not take the trouble to investigate the standing and character of every bank, any more than of an individual farmer.

The objections heard from farmers were various. One was that it placed the whole rural-credit scheme in the hands of banks run for profit. Another was that it did not help the *insolvent* farmer, with no capital to begin with. Another, that it did not solve the questions of personal or short-term credit.

State Aid

The farmer, plowing his long furrows, has time to grow very suspicious. Mr. T. C. Atkeson, representing the National Grange, said: "As I talk to them personally, they seem to be possessed with one fear more than any hope. That is the fear that some kind of job will be put on them that it will take a generation or two to get rid of."

The Hon. E. R. Bathrick, Representative in Congress from Ohio, speaking for his own bill authorizing the government to borrow money at 3½ per cent and lend it to farmers at 4½ per

cent, said: "What we need to do is for the government to hammer down the interest rate."

After the close of hearings on the Moss-Fletcher Bill, the notion grew among those in charge of Rural Credit legislation that direct government aid was both politically expedient and economically desirable, and then appeared "The Federal Farm-Loan Act" called the Bulkley Bill, providing—

That any five persons may form a cooperative farm-loan association, like a mutual building-loan association, for the purpose of lending money to its stockholders up to fifty per cent of the value of the land and to twenty-five per cent of the value of the land's improvement, on first mortgage maturing in five to thirty years;

That each farm-loan association shall contribute at least $1,000 to the capital stock of a Federal Land Bank;

That there shall be twelve Federal Land Banks of $500,000 capital each to supervise the farm-loan associations, and that the Federal Land Banks in turn shall be supervised by the Federal Reserve Board at Washington;

That these Federal Land Banks shall issue farm-land bonds, engraved by the United States government and secured by the mortgages assigned to them by, and purchased by them from, the farm-loan associations;

That in the event of the $500,000 capital stock of each of twelve Federal Reserve Banks failing to be otherwise subscribed, the United States government shall provide it, and,

"That the Secretary of the Treasury shall, upon application of one or more of the Federal Land Banks . . . and upon the recommendation of the Federal Reserve Board, purchase from Federal Land Banks farm-loan bonds not previously issued or sold, in an amount not to exceed $50,000,000 during any one year, and shall pay for the same out of any money in the Treasury not otherwise appropriated."

So the United States government would be required to guarantee in the first place $6,000,000 capital for twelve Federal Land Banks, and thereafter to purchase $50,000,000 farm-loan bonds annually.

That is directly to subsidize the farming industry in this country, as some foreign governments have thought it wise to do.

Are we ready to do that?

The demand for state aid to agriculture comes from the farmers, of course; but it is concurred in by a great many people who believe the food cost of living in that way may be reduced. The farmer, however, is not anxious to cheapen food. He seeks to increase the profits of his industry. Thirty years ago there was such an overproduction of food that corn would not bear the cost of transportation and was burned for fuel. The agriculturist then was poor, indeed; yet state aid was never proposed. What he demanded at that time was a lower range of freight rates to the food-consuming East. He got it. That was the Granger Movement.

Popular Science Monthly. 82:252-63. March, 1913.

How European Agriculture Is Financed. H. C. Price.

The American farmer is ahead of the European in many things, particularly in the use of labor-saving machinery. But in the application of business principles in their financial operations, the European farmers have perfected systems that are in advance of anything yet attempted in America. This has been largely brought about by the force of circumstances necessitating an economic transformation. During the last century the competition of new countries with immense areas of virgin soil flooded the European markets with agricultural products and forced the European farmers to reorganize their business methods.

As a result they have organized to make available abundant credit at low rates of interest and on favorable terms of repayment. By credit, it is not meant that the farmer gets everything he buys on time without paying anything on it, and that he is in debt on every hand, but just the reverse. It means he has money available at all times, so that he may pay cash for everything he buys, thus getting the benefit of the lowest cash prices and discounts. His credit is at the bank and not at the store, and through the bank he gets the loans that he needs at rates of interest just as low and in many cases lower than secured by other industrial enterprises, no difference how large or how much business they do. But to accomplish this the farmers have

had to take a hand in the banking business themselves. They have organized on a cooperative basis to secure the credit they need and to supervise its distribution rather than leaving it to private interests to supply the same. By so doing they have reduced rates of interest, lengthened the time for which loans are made, provided for the repayment of loans by annual installments, and they keep the money in the rural districts and prevent its accumulation in the large cities.

Sources of Capital

The sources from which the capital is drawn that is thus made available to the use of the farmers may be classified under three heads: (1) subvention from the government, (2) savings deposits of the farmers and rural population, (3) from the sale of bonds secured by mortgages on farm land.

The relation of the governments in furnishing agricultural credit has varied greatly. In France the rural banks have been established for the most part on funds advanced by the government without interest. This policy was begun in 1894 and in 1910 the working capital at the disposal of the rural banks which had state aid amounted to 71 million francs (between 14 and 15 million dollars), of which 40 million francs had been advanced by the government. In Austria the provincial governments have actively assisted in the establishment of rural banks to furnish credit for farmers and have advanced loans without interest to them. In Germany the government has indirectly aided the rural banks by establishing central banks founded on capital advanced by the government, in most cases at 3 per cent interest. The central banks in turn furnish credit to the rural banks and the rural banks to the farmer. The Prussian Central Bank at Berlin now has a capital of 75,000,000 marks from the Prussian government. However, its business is not confined to agricultural banks, but is open to all kinds of industrial cooperative associations. It receives deposits and makes loans to the cooperative banks throughout the kingdom of Prussia, and serves as a compensating medium between the different cooperative institutions. For example, if a rural bank has large deposits and a surplus of funds, it deposits them in a central bank to be loaned to some other bank in need of funds.

The desirability of government subvention is a disputed point, and in Germany which has the best developed system of agricultural credit in the world, many are opposed to it as being entirely unnecessary and think that a better system can be developed without it.

The second source of capital, savings and deposits of the farmers and rural population, is the most important. It has the advantage of developing the habit of saving among all classes in the country and it keeps the money in the rural districts in which it is earned. In Germany alone there are over 16,000 rural savings and loan banks with one and one half million members and deposits of over $250,000,000. Instead of being deposited in savings banks to be loaned out in the cities, as is the case in America, or deposited in postoffice savings banks to be loaned to city banks, the money is kept in the rural districts and loaned out at a rate of interest that the farmer can use it to advantage.

The third source of capital, obtained by the sale of bonds secured by mortgages on farm lands, was the first form of co-operative agricultural credit established in Europe and was begun in Germany in 1770. Its most rapid development, however, has been within the last thirty years, and at the present time the German farmers have over $1,000,000,000 borrowed in this way, none of it costing them more than 4 per cent interest and in some cases it is as low as 3 per cent.

Agricultural Credit in the Province of Saxony

The agricultural credit institutions of the province of Saxony in the kingdom of Prussia are as highly developed as in any place in Europe and are typical of the German system. The province of Saxony lies in central Germany, contains an area of 9,750 square miles and in 1910 had a population of 3,088,000, equal to 315.7 per square mile. The largest cities in the province are Halle and Magdeburg with 180,000 and 280,000 population, respectively. It is the heart of the sugar-beet district of Germany and the richest agricultural section of the entire empire. It contains 97,000 farms of over five acres in size. The estimated worth of the land per acre is $300 (for the whole of Germany it is $150 per acre). It is a typical agricultural province, in which the most intensive systems of agriculture have been

developed, necessitating the investment of a large working capital per acre, which has been made available through the development of agricultural credit institutions.

These may be divided into two classes: (1) the institutions furnishing real credit, that is, loans secured on farm mortgages made through the public land mortgage bank—the so-called *Landschaft* of the province of Saxony, (2) institutions for furnishing personal credit, that is, working capital on short time loans and on personal security which is provided through the farmers' cooperative banks.

The Land Mortgage Association

The German Land Mortgage Association (*Landschaft*) was first established in 1770 by the nobility of eastern Germany, with the approval of Frederick the Great, for the purpose of securing loans on their farm real estates. Instead of borrowing individually they organized an association and issued a common mortgage bond against all of the real estate owned by the members of the association. Furthermore, the management of the association was under the direct control of the government and the officers were quasi-public officials. Other similar institutions were soon established, but confined their members to the nobility and large landowners. However, the results secured were so satisfactory, the rates of interest so low and terms of the loans so favorable that the plan extended and the farmers of the middle classes organized in a similar manner.

The province of Saxony, in which the farmers of the middle class predominate, did not organize a land mortgage association until 1864. A few years later came the war between France and Prussia (stopping industrial development) so that in reality the association did not make real progress before 1880. To-day the total mortgage indebtedness of the province is 830,000,000 marks, and over 220,000,000 marks of these loans have been made through the Provincial Land Mortgage Association. The proportion of the loans made through the association is constantly increasing and within the last six months they have increased 10,000,000 marks, but the time probably will never come when all of the outstanding mortgage loans will be made through the land mortgage associations, as in many cases mortgages are

given by members of families in settlements of estates, loans are made within families and through other private interests, so that in no case is it likely that over two thirds of the mortgage indebtedness of a province will be made through a public credit institution.

The Business of the Land Mortgage Association

The Land Mortgage Association of the province of Saxony, which is typical of all other similar institutions in Germany, is a cooperative union of the landowners of this province for the purpose of securing loans for its members on their land by issuing bonds (*Pfandbriefen*) against the same. The association is not a stock company. No profits are declared to individuals, but go to the reserve funds of the association. Any one may become a member who is a landowner in the province and pays a land tax of at least 90 marks per year, which means owning from 10 to 25 acres of land, depending upon its value.

The articles of the incorporation for the association were approved by the Prussian government and the oversight of the business is under the direction of the Minister of Agriculture of the kingdom of Prussia. The association is independent to conduct its own affairs and to elect its own officers, but the election of the higher officers must be approved by the government. A farmer wanting to borrow through the association makes his application. After examination of the title of his farm and finding it satisfactory he has the privilege of borrowing to two thirds the assessed value of his farm for taxation by giving first mortgage to the association for the amount he borrows. The association does not have the money on hand to make the loan, but secures the same, not by selling the mortgage, but by issuing what is known as a *Pfandbrief* or mortgage bond of equal amount to the mortgage and selling the bond. There are several features of the *Pfandbrief* that are characteristic. First, it is not secured alone by the mortgage of the farmer for whom it was issued but by all the mortgages and property of the land mortgage association. Second, it is transferable without endorsement at any time and is an impersonal security payable to bearer. Third, it is not a bond in the sense that it runs for a definite length of time, for there is no fixed time

at which it matures. Fourth, the holder does not have the right to demand payment of the face of the bond—that is, to call in the loan—but the issuer—the land mortgage association—has the privilege of paying it at any time. For example, the bond may be called in and paid six months after it is issued or fifty years, at the pleasure of the land mortgage association. But under no conditions is the amount of bonds outstanding permitted to exceed the amount of mortgages held by the land mortgage association.

The business of the land mortgage associations has been done so conservatively that their bonds are regarded as the very best of security and are favorite investments for trust funds, savings banks and any capital seeking a perfectly safe investment negotiable at all times. In fact, these bonds sell next to government bonds, and in case of war, or even threatened war, they sell better. The government may be overthrown or compelled to suspend payment of interest, but the farm real estate that secures the bonds can not lose its value.

The rate of interest the bonds bear is 3 per cent, 3½ or 4 per cent, at the option of the farmer securing the loan, but the price at which they sell depends upon the condition of the money market. At the present time (July 1, 1912) 3 per cent province of Saxony *Pfandbriefen* are selling at 81.00, 3½ per cent at 90 and 4 per cent at 99.80, while the 4 per cent national bonds of Germany are selling at 100. In case a farmer borrowing $1,000 chooses a 3 per cent interest rate and the 3 per cent bonds are only selling for 81.00, he gets only $810 and pays $30 per year interest, that is, per cent on the face of the bonds, and gives his note and mortgage for $1,000. But on the other hand, if 4 per cent bonds are selling at par and he chooses a 4 per cent loan, he gets his $1,000 in cash for his *Pfandbrief* and pays $40 per year interest and gives his mortgage and note for $1,000. It is always regarded as the best policy for the borrower to choose the class of bonds selling nearest par, unless they are selling above par, in which case the farmer securing the loan gets a premium over and above the amount of his liability and it is to his advantage to take such loans. When the bonds go above par they are called in and paid off by the farmers refunding their debts at lower rates of interest. Here comes the advantage that the farmers reserve for themselves in the privilege

of paying off the bonds at will. Just such a thing happened when in the seventies the rate of interest advanced to 5 per cent, due to the scarcity of money and the enormous demand for it in building railroads on the continent and ten years later the rates of interest sank until 3 per cent bonds sold close to par and the farmers rapidly paid off their loans made at the high rate of interest by using new bonds at the lower rate of interest and selling them to pay off the old ones.

Central Land Mortgage Association

In order to widen the market for the *Pfandbriefen* a central land mortgage association was established in Berlin in 1873. By this means it was thought to make them an international security and to give them a larger market. The bonds of the central association are secured by all the mortgages of the provincial associations belonging to the central association. The results attained through the central association, however, have not fulfilled expectations. The *Pfandbriefen* in no considerable extent have found their way into the international money markets. The offering of them in such large quantities on the Berlin Bourse reduced the price below what they could be sold for in home markets through the local banks. Furthermore, there is a sentiment among investors buying bonds that as long as the provincial bond is equally as secure as the central they prefer to invest in *Pfandbriefen* of their own province. In the province of Saxony, with its 220,000,000 marks of *Pfandbriefen* outstanding, the director of the *Landschaft* estimates that 75 to 80 per cent of the total amount invested in them is capital of the province of Saxony. So far as security was concerned, nothing was to be gained by consolidation into a central association, since the provincial association bonds are as secure as bonds can be made.

Of the total amount of bonds in circulation at the present time only about 10 per cent of them are central association bonds. The latest statistics show that the provincial and central associations of Prussia have the following amounts of outstanding bonds.

Land Mortgage Association of Prussia

Association.	Founded.	Outstanding Bonds.
East Prussia	1788	426,152,350 M
West Prussia	1787	123,074,405 "
New West Prussia	1861	186,278,210 "
Berlin	1868	449,563,500 "
Pomerania	1781	252,007,525 "
New Pomerania	1871	19,006,900 "
Posen	1857	301,525,300 "
Silesia	1770	608,634,180 "
Saxony	1864	126,675,600 "
Celle	1790	15,579,100 "
Hanover	1825	24,706,650 "
Bremen	1826	10,360,425 "
Westphalia	1877	74,554,300 "
Central	1873	433,255,000 "
Total		3,093,493,545 "

Mark equals 23.8 cents.

Amortization of Loans

One of the most valuable features of the loans made through the land mortgage associations from the standpoint of the farmer is the gradual amortization through annual payments made with the interest. This is obligatory on the part of the borrower and usually is ½ per cent to ¾ per cent of the face value of the loan. In the land mortgage association of the province of Saxony the amortization is ¾ per cent per year. On a loan made at 4 per cent is added the ¾ per cent amortization and ¼ per cent to cover the operating expenses of the association, making a total of 5 per cent, and by paying this amount annually for between forty to forty-five years the loan will be paid off. The farmer in the meantime also has the privilege of paying it all or in part at any time. After the loan has been made the rate of interest can not be raised or the loan called in, so if the farmer has secured his loan at a low rate of interest he can carry it until it has been amortized by his annual payments. The Saxon farmers who in the nineties borrowed at 3 per cent and got par for their bonds are relishing this feature now that the rate of interest has advanced to 4 per cent.

However, many of the better farmers make no attempt to pay off their loans any faster than is required through the annual amortization payment, finding that they can get their credit cheaper in this way than any other and can make more interest on the money used in their business than they have to pay for it. The association also has the provision that when 10 per cent

of the original loan has been paid an additional loan can be made and in this way a farmer can continue to carry indefinitely practically the same amount of loan on his property if he finds it advantageous to do so. The average length of time loans run in Saxony is about twenty-five years.

By this method the farmer gets all the advantages of the money market if money is tight—the rate of interest goes up and the price of the *Pfandbriefen* go down when money is abundant and interest rates low the price of *Pfandbriefen* go up. The farmer through his bank watches the money market and takes advantage of the low points in interest rates to secure his loan, and once made he is safe from having his loan called in or his interest rate raised.

Decentralizing the Business

A practical point in the operation of such a business is to make it as convenient as possible for the farmer to do business with the land mortgage association. The province of Saxony is a territory nearly 100 miles square and the association is located in Halle, a relatively large city. For all of the farmers to come to the central association to negotiate their loans would be impracticable and would diminish the business very much. This problem has been solved by dividing the province into districts 10 to 15 miles square and in each district is a local officer of the association elected by the members in their annual meeting. This officer assists the members in getting their loans, sends in their applications, gives information concerning the association and looks after the business in his district.. When property is appraised for loans, he is chairman of the committee making the appraisement. When interest is not paid or a member is neglecting his farm, the local deputy, as he is called, serves as the medium between the association and the delinquent member. In this way the advantages and economy of a centralized organization and at the same time the benefits of a decentralized association—that is, one close to the individual farmer—are secured.

Personal Credit

While the land mortgage association is sufficient to provide the long-time credit that is needed by the landowner, it does not

suffice to furnish the short-time loans that are needed to supply working capital, to buy seeds, fertilizers, livestock to be fattened, to pay for labor to grow crops and such operations as require capital for six to nine months. To the farm renter or any farmer who does not own land, the land mortgage association has nothing to offer.

To meet this need the rural banks have been established. The work of this class of banks had its beginning particularly with William Raiffeisen among the peasant farmers of western Germany about the middle of the last century. Raiffeisen saw the dire straits of the small farmers who were without credit and at the mercy of the usurer. He began by establishing cooperative associations to do their own banking, and there were four fundamental principles that he insisted upon that have been retained in the true Raiffeisen banks of the present time. First, unlimited liability of the members. This was necessary in the beginning in order to get any credit at all. All the members were practically without means and the question of limited or unlimited liability was of little moment to them.

Second. A restricted area of operation for the bank. This was confined to the district in which the members were all personally acquainted with one another. In European farming it is customary, especially for the peasants, to live together in small villages and not on single farms as in America, so that the boundaries for the operation of the bank were generally confined to a single village.

Third. No dividends to members. A low rate of interest, usually 4 per cent, was paid on the capital stock each member had invested in the bank, but all profits made over that amount were set aside in a reserve fund.

Fourth. No salaried officers were employed in the banks except the bookkeeper. The management of the bank was made a matter of honor, the work to be done without any mercenary compensation. The business was done in the most democratic manner possible. Every member was given a voice and made to feel he was personally responsible for the success of the business. Loans were made for specific purposes, for example, to drain a field. The committee considered the advisability of the proposed expenditure in making the loan, the members of the bank all knew the plan of the member and were interested in his

success, because in case the member failed and was unable to repay his loan to the bank they would all be losers.

Raiffeissen did another thing that is of utmost importance in rural banking. He adjusted the loans of the bank to meet the needs of agriculture. The farmer needs a longer time loan than the merchant or manufacturer. City loans for three and four months do not fit the business of farming. With the farmer 6 to 9 months is the shortest time for which he needs a loan. The time from planting a crop till it is harvested and ready to market is at least six months. The city merchant will turn over his money four or five times during the year but the farmer only once, so that the rural banks must make the loans for longer periods than is customary in the city. In case of crop failure in bad seasons loans must be allowed for still longer periods and in Raiffeissen banks these provisions were made.

From their beginning in the Rhineland the Raiffeissen banks have spread not only over all rural Germany, but almost all rural Europe. They have been modified to meet local conditions but with it all have kept in view the purpose of serving the needs of the farmer.

In studying the agricultural banking or credit system of a country the condition of the individual farmer must be taken into consideration. A system applicable to peasant farmers with small holdings, such as are found in many parts of Europe, is not likely to offer much of value for American farmers. But in a section in which the average wealth and stand of the farmers is on the same level as in America, a system that is proving successful may afford some good lessons.

Rural Banks in the Province of Saxony

Such a section is to be found in the province of Saxony where the rural banks are splendidly organized and doing a business of $100,000,000 per year.

The first striking difference between these rural banks and the original Raiffeisen banks is that they are organized on a limited liability basis. The farmers of Saxony for the most part are well to do, but they vary greatly in their financial worth. The man whose property is worth a hundred thousand marks is not willing to become a member of a rural bank or a cooperative association of any kind with members who are worth only five thousand

marks and agree to an unlimited liability for its members. Consequently the Saxon banks are organized limiting the liability of the members in proportion to the interest they have invested in the bank. The fundamental object of the rural banks is to furnish credit to their members for working capital at the lowest rates of interest possible and not to make a profit on their business. In the province of Saxony there are 660 rural banks. These are small village savings banks with an average membership of about 100 farmers. They are the units of the farmers' cooperative organizations of the province. At Halle there are three central cooperative organizations, with all of which the local banks stand in relation and are members: (1) The Central Cooperative Bank, which does nothing but a banking business and whose members are cooperative associations instead of individuals. (2) The Central Cooperative Association for the purchase and sale of agricultural products. This, like the central bank, has for members associations instead of persons and does a wholesale business in buying and selling agricultural products. (3) The Union of Cooperative Societies, which oversees the management of the local societies, audits their books, furnishes uniform systems of bookkeeping and looks after the organizing of new societies and does the propaganda work in promoting agricultural cooperative work in the province.

In order to become a member of the Central Bank at Halle the local association or bank must take a share in it which is 300 marks. The number of shares that the local bank or association holds is in proportion to the amount of business it does. By virtue of holding shares in the central association it is entitled to make loans from it. The farmer goes to his local bank, of which he is a member and to whom he is known, and makes his application for a loan. The bank in turn applies to the Central Association with which it has credit and secures the money and it costs the farmer ½ per cent more interest than the local society pays the Central in order to cover the local costs of the society. The average interest rate charged by the Central Bank in 1909 was 3.92 per cent, in 1910 it was 4.34 per cent and in 1911 was 4.39 per cent. The rate of interest paid for deposits is 3 to 3½ per cent, depending upon the current interest rate.

Credit is the first requisite of successful cooperation. When

a country has a well-established system of agricultural credits it is almost certain to be thoroughly organized on a cooperative basis in other lines. This is the case in the province of Saxony, particularly in the purchase of agricultural supplies, such as fertilizers, feeding stuffs, coal, seeds and agricultural machinery.

The local banks serve the farmers both as the societies through which the purchases are made and furnish the credit for making the purchases. In this way there is a saving in the cost of doing the business and the bank knows how the money is spent.

Moral Effect of Cooperation

The development of the cooperative credit systems among the farmers of Europe has had an important influence on their social life. Aside from the independence gained in their business affairs by being freed from the money-lenders which for the most part were usurers; they have been united in a community of interest that has widened their circle of acquaintance, given them a sympathetic interest in each other's welfare and has largely displaced the jealousy so commonly existing in rural communities.

Among the peasant classes where the Raiffeissen savings and loan banks were established with unlimited liability of the members, ministers have frequently testified that they have been as important factors in the moral life of the people as the church itself. Intemperance and immorality is not permitted among the members. If a farmer takes to intemperate drinking his loan is called in by the bank. If he is neglecting the work on his farm the loan is called in. So that every farmer feels he is under the constant watch of the other members and since thev are united together in a cooperative association, where if one man fails the others must pay his losses, they are all interested in each other and anxious to see every one succeed.

The application of the cooperative principle of "one for all and all for one" serves as an incentive to the individual farmer and inspires him to do his best.

Need in the United States

The farmers of the United States as yet have not appreciated the value of organizing to improve their credit. In the southern states the cotton crop must be marketed as soon as harvested

to meet outstanding loans that the farmers have made at exorbitant rates of interest. The grain dealers throughout the central states know that they will be flooded with wheat and corn just before tax-paying time by farmers who are compelled to sell in order to raise money to pay taxes. Intensive systems of farming that must be adopted to adjust American agriculture to present needs means a larger working capital for the farmer, he must use more labor, more commercial fertilizers, better seed and he must drain his land. The European farmer gets twice as large a crop yield per acre as the American farmer because he spends twice as much capital in producing it. He cultivates better, fertilizes better and he takes better care of his land.

Interest rates in general are lower in the United States than they are in Germany and yet the German farmer is able to secure his credit through his cooperative organizations at two thirds the rate of interest ordinarily paid by the American farmer. In addition the loans are made on much more favorable terms and the times and methods of repayment are adjusted to suit the business of the farmers.

The advantages of the farmers organizing to sell their credit for what it is worth are not all on the part of the farmer. But for the capitalist seeking a safe investment for his money they offer a security that can be bought at any time and is always negotiable. Such organizations serve as an economic saving between borrower and lender. The man in America at the present time who wishes to invest his money in farm mortgages must seek out such loans personally or through an agent. The punctuality with which the interest will be paid and the loan when it falls due will depend upon the personality of the farmer. But such is not the case when the loans are made through a land mortgage association and the investor instead of lending direct to the farmer buys the bonds of the association; he then knows that his interest will be paid as punctually as on a government bond; that his security has a market value and can be sold for cash any day through his bank. The establishment of the land mortgage association and selling its bonds on the open market opens up a field for investment that is not practically closed to a large class of investors.

One thing to be emphasized in regard to the success of the European systems is the fact that it has been largely due to the

direct oversight that the governments have had over them. Without this government relationship they could not have commanded the confidence of the public that they have. It is hopeless to expect an equal degree of success for similar institutions in America unless they are also organized under government control, at least to the extent that the public will have absolute confidence in their solvency.

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Scientific Farming and Scientific Financing.

Leonard G. Robinson.

The complaint is general that American agriculture has not kept pace with the growth of population, that its progress has not been commensurate with industrial progress, and that the phenomenal growth of the city has frequently been achieved at the expense of the country. The fact is, enthusiastic back-to-the-soilers notwithstanding, that farming has its drawbacks. This is not peculiar to the United States. In 1897, according to Mulhall, forty per cent of the world's population was engaged in agriculture and thirty-one per cent of the world's capital was employed in it but its share of the world's profits was only twenty per cent. To-day with the large increase in land values and farm equipment, the disparity should be greater if anything. The question why farming is not as profitable, nor as attractive in other respects, as it should be, is variously answered, depending upon the point of view. The railroad, the middeman, society, the government, the farmer, each receives a share of the blame; the farmer a little more than his share.

Doubtless our rural transportation facilities are far from the best. The wide divergence in the price of farm products between producer and consumer is also indisputable. It must further be admitted that the farmer himself has displayed a woeful want of progressiveness and has not readily responded to the best thought dealing with life on the farm. But all this is not enough to account for the bankruptcy of country life. The cause is more insidious and more deep seated.

But for the fact that it is frequently disregarded or treated

as of secondary importance, it would seem superfluous to say that capital is needed in farming as it is in any industrial enterprise. To farm properly and profitably—scientifically, if you will—the land must be improved and brought to a high state of productiveness; buildings should be ample and in good repair; and equipment modern and adequate. All this apart from the initial investment in the farm. In addition the farmer must have money to put in his crop; to live till the crop matures; to harvest it; to market it. Granting that his crop is good, in what position is he to market it advantageously if he is obliged to sell to his creditors, as the case very often is, or compelled to sacrifice it in order to meet his urgent debts? Again, even with fair prices, how is the farmer to make a profit on his operations if he pays all kinds of prices for his capital? Does it not seem a little unreasonable to presume that agriculture can thrive under conditions that would wipe our railroads off the map, shut the doors of our factories, and paralyze all legitimate commercial activity? What farming really needs is not so much scientific farming as scientific financing.

The lack of an adequate system of agricultural credit is set down by President Roosevelt's Country Life Commission, as one of the most prominent deficiencies of country life. "The present banking system" says the Commission's report, "tends to take the money out of the open country and to loan it in town or to town-centered interests." Once a year, it is true, Wall Street is thrown into a financial fever over the shipment of money to the interior for "crop moving," but this seasonal inflow of funds has little, if any, effect on the rural credit situation. To begin with, the money comes the wrong time of the year. Instead of being available in the spring when the farmer could put it to profitable use, he gets the money in the fall, just in time to pay the debts he contracted at the beginning of the season at ruinous rates. In any event, the money remains in the interior but a month or two and soon finds its way back into the vaults of the city banks.

How the migratory tendency of money toward the city is abetted by our national banking system was demonstrated at a recent hearing before the Congressional Committee on Banking and Currency. It was shown that out of $10,662,564.78 on deposit in forty national banks, in one congressional district in Minnesota, $6,446,715.01 was in time deposits not subject to check. As these

banks are not permitted to make mortgage loans, a good part of this money, if not idle, has in all probability gone to the reserve cities to be loaned out on call at two per cent or thereabouts, while the farmers in that district must do as best they can without their much-needed funds. The same is no doubt true of most every part of the country.

Because of the further tendency for capital to seek investment in industrial and commercial enterprises rather than on the farm, the farmer is by no means sure to get his fair share even of the loanable funds locally available. The reason is not far to seek. The farmer is not an easy customer to deal with. His methods of doing business are a little primitive, and the distance from town makes proper attention to farm loans inconvenient if not exceedingly difficult. Moreover, the farmer and the banker have little opportunity to get together. They do not belong to the same church, lodge, club, or social set. Perhaps the farmer is not even a depositor. He is not influential enough to command credit and, outside of the righteousness of his cause and the intrinsic merit of the security, has little else to offer for it. It is easy to see, therefore, that as a competitor for credit, the farmer is not an unqualified success.

At bankers' conventions it has been customary to discuss the relations of the banker and the farmer. These discussions generally end in talk. Sometimes not even in that. A fair sample of the interest of the average banker in the farmer was shown at the Farmers' Week at Ithaca last winter held under the auspices of the New York State Agricultural College. The program called for a conference of country bankers, with the usual discussion as to how the country banker can help the farmer. The only bankers present were a professor at the college, an editor of an agricultural paper, and the writer.

The inherent difficulty lies in the misconception of the functions of banking. Banking and credit are not synonymous. While banks do a credit business, the ordinary bank cannot adequately or efficiently fulfil the functions of a credit institution. Viewed in the light of a purely private enterprise, the interests of the banker and of the farmer are not always identical. The first duty of a bank is to protect its creditors, the depositors. It must see that its investments are safe and secure. That done, its business is to make as much profit as possible for

its owners or stockholders. The use to which its money will be put by the borrower is of minor importance, and frequently of no importance at all. The banker's chief lookout is that his money is not idle and that it is well secured, and his policy is shaped, as a rule, by other considerations than the legitimate needs of the borrower or the interests of the community.

That our banking institutions do not satisfy the legitimate needs of the farmer is generally admitted, though seldom sufficiently emphasized. The effect of our peculiar banking and currency system on the farmer is tersely summed up by Professor E. W. Kemmerer in the *American Economic Review* of December, 1912. "Farming business," he says, "is pre-eminently seasonal in character; the farmers over the greater part of the country need funds most at about the same times of the year, i. e., the fall and spring. A great increase in the demand for currency and capital, say in the fall, under an inelastic currency and credit system like our own, means to the farmer, highest interest rates at just the time when he needs most to borrow, greatest scarcity of cash at just the time when his need for cash is the most urgent, and prices depressed by a tight money market at the time of the year when he has most to sell."

In many of our western states the legal and prevailing rate of interest is twelve per cent, not reckoning the bonus, commission, expenses, and other subterfuges invented by the ingenious money lender, and designed to circumvent the usury laws or to mollify the public conscience. Conditions in the East are no better. Many instances have been brought to my attention in New York, New Jersey, Connecticut, and Massachusetts, where farmers have been paying twenty-five per cent and more for accommodations. There are localities not many miles from New York where the farmer cannot obtain a loan on a gilt-edged mortgage because the local savings banks, "the banks of the people," find it more convenient to invest in the bonds of the Singapore gas works or to do business with the local real estate operators.

Continental Europe has found the solution of this problem, as have other countries outside of Europe, in the creation of banking systems specially designed to answer their agricultural requirements. The one underlying principle of all these systems is the paramountcy of the borrower's interests consistent with sound business policy. Another noteworthy feature is the com-

plete or partial separation of land credit and agricultural credit, so-called. The first is long-time credit secured by mortgage. The second is short-time credit, and the promissory note is ordinarily the sole form of security. The distinction is important as bearing upon the development of credit institutions. Land credit, being more or less impersonal, permits of the non-cooperative system and seems to find it preeminently favorable for its best development. Short-time credit, on the other hand, is in its nature personal and the relationship betwen debtor and creditor more intimate. The cooperative system has therefore been found more suitable for this form of credit and has been almost universally adopted, with such modifications, however, as the traditions, the temperament, and the needs of the individual country demanded.

The oldest land credit institutions extant are the German *Landschaften.* They are the creation of Frederick the Great, who decreed the compulsory association of the noble land owners for cooperative credit. The first *Landschaft* was organized in 1769. A distinctive feature of these associations is that they loan not money, but credit. They issue bonds to the borrowing member for the amount of his loan, which may be as much as two-thirds of the value of his land, and he sells these bonds either in the open market or to banks specially organized for the purpose. No loan can be refused to a member, and its repayment depends entirely upon the pleasure of the borrower. The interest rate on these bonds rarely exceeds four per cent. The only charge to the borrower is a premium of one-half to one per cent to defray administrative expenses.

The *Landschaften* now number eighteen. A fair idea of the magnitude of their operations can be gained from the fact that in 1906 their outstanding bonds amounted to over nine hundred million dollars. These bonds sell on the basis of three and a half per cent and lower, which is proof of their popularity with the investing public. Strangely enough, this system of land credit does not appear to have met with favor outside of Germany and has remained exclusively a German institution. It seems possible that its aristocratic lineage and the traces it bears of German feudalism have militated against a more general adoption of the *Landschaft* system.

Probably the best type of non-cooperative land credit insti-

tution is the *Crédit Foncier*. This bank, which has virtually a government monopoly of land credit in France, was organized in 1852. It is a limited liability company with a capital of two hundred million francs and with the right to issue bonds to the extent of its loans. It loans on mortgage up to fifty per cent of the land value. The interest rate is fixed at four per cent a year and, by means of an ingenious amortization plan, the payment of a small additional percentage extinguishes the entire indebtedness after a period of years. Outside of the loans to communes and municipalities, the *Crédit Foncier* in 1910 granted 6,595 mortgage loans aggregating 142,911,556.79 francs, and its bonds in circulation at the close of the year aggregated a total of 2,279,530,950 francs. Notwithstanding the extremely low interest rate, the *Crédit Foncier* is a paying institution. In the year above mentioned it declared a dividend of 6.4 per cent on its large capitalization besides putting five per cent of the net profits into the reserve fund. It is inconceivable that American financiers should have overlooked so fruitful a field for investment and so excellent an opportunity for signal public service.

However, it is cooperative agricultural credit as typified by the *Raiffeisen* system, and in a lesser degree by the *Schulze-Delitzsch* system, that has exercised the most potent influence in the regeneration of agriculture the world over.

In 1849 Frederick William Raiffeisen conceived the very unorthodox idea that the real capitalists were the masses and that the bankers and big financiers were only capitalists by sufferance. He concluded that the masses could supply their own credit requirements, provided a workable plan could be devised to bring the lender and the borrower together. Inspired, no doubt, by the wonderful success of the *Landschaften,* he resolved to adapt the principles of cooperative credit to the needs of the poorer class of farmers.

But the peasants had not the wealth of the large land owners. Here is where Raiffeisen was guilty of another heresy. Credit, to him, signified faith. He believed that the average man was honest and that communities were dependably so. He, therefore, felt that he could command the required capital by "capitalizing the people's honesty." Accordingly, with little money but with unlimited faith, the first *Raiffeisen* bank was organized.

The principle upon which cooperative credit rests is mutual

responsibility. But where the merit of the borrower rather than the security is the primary consideration, qualified responsibility is not sufficient to inspire public confidence. Absolute and unlimited liability of the members has therefore been adopted as one of the fundamentals of the *Raiffeisen* system. Such responsibility is feasible only where the relationship between the members is close and intimate, their knowledge of one another's character and needs adequate and complete, and they are in a position to see that the borrower makes proper use of the loan and to discover any disposition on his part to treat his obligations lightly. These conditions are to be found only in associations whose membership is small and whose operations are restricted to a limited area. The *Raiffeisen* system therefore is the system *par excellence* of the small local bank.

The growth of these banks has been stupendous. In 1908 Germany alone had 16,092 cooperative credit banks of various kinds with a total membership of 2,202,950. It should not be assumed, however, that they had easy sailing. Not the least of the numerous obstacles they had to overcome was an inimical and harassing government bureaucracy. Gradually obstacles were surmounted and obstructions removed. The idea of cooperative credit gained headway and the number of banks increased with great rapidity. Even the government saw its error and in 1895 established a bank for the special purpose of loaning them money. The need of central organizations soon became felt and resulted in the organization of central banks to act as financial clearing houses and of federations to act as moral and educational clearing houses. In 1909 the National Federation had 12,614 constituent banks with a membership of 1,163,186. These banks loaned out during that year a total of $214,694,794. Their working capital was $461,089,632, of which but eleven per cent was from outside sources, the balance having been supplied by their members, chiefly in the form of deposits which amounted to eighty-five per cent of the working capital.

Cooperative credit as an institution did not long remain exclusively German. It became a world movement. Italy followed in 1883. Austria fell into line in 1886, Ireland in 1895, and France in 1899. Russia has its cooperative credit banks; so has India. In 1909 Japan, "the Yankee of the East," had 1,886 cooperative credit associations with a membership of 167,760.

The dominant influence of cooperative credit in the world of finance is evidenced by the vastness of its business operations. It was estimated that the outstanding loans of a more or less cooperative character in continental Europe in 1897 aggregated a total of $4,600,000,000.

Singularly, in a movement of such world-wide import, the United States has been content to remain a passive spectator. While it is true that private investors and our existing banking institutions do in a crude way supply the need of long-time or mortgage credit, short-time credit is virtually non-existent, and the average American farmer must still depend for his annual working capital upon the generosity of his neighbors, the forbearance of the local storekeeper, or the cupidity of the usurer.

However, both land credit of the *Crédit Foncier* type and cooperative agricultural credit of the *Raiffeisen* type have found a foothold in this country, although in a very limited field. The honor of introducing these two systems of credit into the United States belongs to a philanthropic organization, The Jewish Agricultural and Industrial Aid Society. The society was organized in 1900 with the object of assisting Jewish immigrants in the large cities to go into farming. Its funds are derived from the large fortune bequeathed to charity by the well-known French philanthropist, the late Baron de Hirsch. It is a New York corporation with headquarters in New York City, although its operations extend to nearly every state in the Union. The society has as its trustees some of the leading American Jews, Mr. Jacob H. Schiff being one of its incorporators.

In its essentials the credit system of The Jewish Agricultural Society differs little, if any, from that of the *Crédit Foncier* and other agrarian banks. But here is where the difference becomes marked. The society's funds being limited, it does not as a rule loan where the funds are elsewhere obtainable. It rarely, therefore, makes loans on first mortgage. Most of its loans are on second mortgage and not a few on third and even fourth mortgages supplemented sometimes by chattel mortgage or other collateral. The society loans up to seventy-five per cent of the value of the land, although in special cases it has loaned even beyond the land value. During the last twelve years it has granted 2,178 loans amounting to $1,256,114.05. The loans average around five hundred dollars. They are repayable in moder-

ate annual instalments, their average duration being about ten years. The interest charge is four per cent. Considering that the security taken by the society is mainly substandard, it speaks well for the farmer as a debtor when it is shown that the repayments during the last twelve years amounted to twenty-six per cent of the total loaned and the losses less than three per cent.

So much for land credit. As for strictly agricultural or short-time credit, while the society felt that this form of credit was within the scope of its work, it found itself unable to cope with the situation. With headquarters in New York and a clientele scattered from Maine to California, the society could not keep in sufficiently close touch with the borrower to permit of its extending personal credit.

To obviate these difficulties the society decided upon the adoption of the *Raiffeisen* system of cooperative credit. In 1909 it set about to organize cooperative agricultural credit associations in the Jewish farming communities in which it was interested, although, owing to legal difficulties, the first of these organizations did not come into existence till May 1, 1911.

All told, the Jewish Agricultural Society organized eight farmers' credit unions—four in New York and four in Connecticut. Four more are now in the process of organization in other states. Each of them raised five hundred dollars through the sale of shares to its members and the society loaned them one thousand dollars, that is, two dollars for every dollar of their own. These loans to the credit unions are secured by promissory notes bearing interest at the rate of two per cent. According to their reports for the fiscal year ending September 30, 1912, their total membership numbers 240 and their outstanding shares 844, making a total capital of $4,220. The average length of time they have been doing business is ten months, during which period they granted 342 loans aggregating $23,375, nearly six times their share capital. Their net profits for the period amounted to $425.88, or at the rate of more than eleven per cent per annum on that capital.

As stated, these credit unions are modeled very much after the *Raiffeisen* system. Their operations are confined to a small area and membership is open only to members in good standing of the local Jewish farmers' association, which is itself a member of the central organization—the Federation of Jewish Farmers of

America. The credit unions are highly democratic and are controlled entirely by the members. Shares are five dollars each and every member has the same rights and the same voice, irrespective of the number of shares he may hold. Loans are granted only for productive purposes or urgent needs. They are not granted for a period exceeding six months nor for an amount over one hundred dollars. Interest is charged at the rate of six per cent, and the security required of the borrower is generally a promissory note with one or more responsible endorsements.

While it may be a little early at this stage for these pioneer credit banks on American soil to show their full effect, some of the results of an adequate system of cooperative credit have already manifested themselves in the communities in which they exist. The farmer finds no difficulty in obtaining a moderate loan for productive purposes quickly and cheaply. The pernicious activity of the local usurer has thus been largely curtailed and the overbearance of the local storekeeper is in evidence no longer. Not the least important is the moral and educational effect of these associations. The credit unions have endowed their members with a high sense of mutual responsibility and have stimulated them to further effort in the direction of cooperation and mutual self-help.

What is needed is not a commission of study but one of action. We have learned all that we are going to learn of the European credit systems without actually putting our hands to it. To my mind, in order to establish cooperative credit in the United States, we must have (1) legislation to facilitate the incorporation of such associations; (2) education to bring to the American farmer a true appreciation of the benefits of such associations; and (3) organization, that is, leadership to perform the actual task of organizing and starting these associations.

The operations of these banks are extremely simple. Any man with a modicum of horse sense and a smattering of bookkeeping is quite competent to take charge of the management of a cooperative credit bank. The business of a credit union is far less intricate than the daily operations of the average farmer. What the European and Asiatic ignorant peasantry have done the American farmer can also do. Considering, too, what has been accomplished abroad by the various land banks and by a

philanthropic organization with limited means here, what could not an American land bank, commanding the confidence and the resources of the entire country, accomplish?

Meanwhile, the cry of "back to the farm" rings hollow when our experienced farmers and their sons are compelled to abandon their farms because they are denied the financial facilities to conduct them properly. Let us not blame the farmer for not getting the most out of his farming operations and at the same time withhold from him the only means that makes profitable farming possible. Just a little scientific financing and there will be little to worry about scientific farming.

Rogers, A. L. Farm Credits.

Waterville, Wash., April 19, 1913.

Prof. L. I. Brislawn,

Department of Economics, Pullman College, Pullman, Wash.

Dear Professor: I have filled out the inclosed questions to the best of my ability and according to the manner in which agricultural credits have been handled in this section. The system has been changing year by year since the pioneer days of twenty-five years ago, land values are becoming more settled, the possibilities of safe farming are becoming more definite, and therefore interest rates are gradually getting lower as the speculative conditions disappear. This is, at present, a one-crop wheat producing country; one-half the land is summer fallowed each year; consequently there is but one pay day each year, and the farmer gets his credits on that basis. The whole system is inefficient and uneconomic. Very few of them have made much money outside of the raise in values of their land. They are all farming on too big a scale. Under the present system they are destructive as hell in their methods. They are going into debt, buying more land, gas-traction engines, and 10-bottom plows. No rotation or diversification of crops, just wheat, wheat, wheat; simply mining the soils and selling the surface of their farms. The greatest trouble with the average farmer is he is getting too much credit; and the bankers and merchants are due some consideration and also some condemnation in taking long chances in their desire to help the farmer and develop the coun-

try, even though they do it with the idea of making a profit. One great trouble is the American farmer is not an agriculturist, but a speculator in lands; he values the soil to exploit it, and not for its true producing qualities. I need no better proof of this assertion than statistics from the Middle and New England states, where you can buy farms for less than the costs of improvements on them. I know plenty of men of wealth who would be glad to make farm loans at 6 per cent on 25 or 50 years' time under the amortization plan of retiring the principal and interest, but men with capital hesitate in taking chances on the ignorant, shiftless, and speculative methods of the average American farmer; the land would be worn out before the mortgage became due.

There is an immutable law in loaning money—the greater the risk the higher the rate—and whenever the American farmer qualifies himself and his conditions the same as the German and the French farmer has done, he will get just as good accommodations, but not until then. Under the laws of compensation most everyone gets what is coming to him. The rich man gets his ice in the summer and the poor man gets his ice in the winter, but they all get ice. A bunch of farmers came into my office the other day kicking on the rates of interest. I informed them that not one of them was a genuine farmer; they were simply speculators; they demanded loans up to almost the actual value of the land, based on their earning capacity; they expected to scratch around on the surface of the ground to make expenses and no improvements, hoping and expecting that some sucker would come along in a year or two and give them twice what they paid for it. The money loaner expects and demands the highest rate of interest he can write when he goes into that kind of a partnership. I further informed these gentlemen that there would some day be an agricultural people living in this section who would be entitled to a very low rate of interest, but those people would not come to the market in an automobile; they would stick to the dead-axle wagon, and every time they came to town it would be loaded with something to sell, and when they went home they would haul back a load of manure to strengthen their collateral, so that their land would be worth as much when the mortgage became due as it was the day it was written, and thereby justify a demand for lower rates of interest. A farmer,

to make money, has got to learn to tote both ways, but the biggest load must go toward the market. The wheat farmer works hard two months in the spring and two months in the fall, and the balance of the time he sits around kicking the grain man, the transportation man, the middle man, and the banker, when he should be milking cows and feeding hogs and doing diversified farming, thereby maintaining the fertility of the soil and having something to sell when he comes to town to buy his supplies. The silo will make a dairy country out of eastern Washington and double the values and producing qualities of the land. Some of the farmers are waking up to this fact and more will follow later on.

Long-time loans secured by mortgages on land should not be made except for the purchase price or permanent improvements on same. The farmers of this section can, at all times, get any reasonable amount on their lands on three or five years' time at 8 per cent, with a privilege of paying $100, or any multiple thereof, on the principal at any interest-payment period, and all papers generally become due in the fall, after harvest, for their convenience. So much for long-time credits.

Our bankers have always handled the farmers' short-time loans, and every deserving man has had all he required, and the rates have always been in keeping with the risk. For example, if Bill Jones wanted $200 June 1 to pay for his spring work he gave his note, due December 1, at 12 per cent. On September 1, if he wanted $400 to carry him through harvest, he gave his note, due December 1, at 12 per cent. He got what he wanted when he wanted it—all he needed—and he virtually only pays 4 per cent per annum for his accommodations.

Since the first of the year our banks have reduced the interest rate to 10 per cent on short-time loans.

I have been in the general merchandise business for over a quarter of a century, and I know the eastern Washington farmer just as though I had been through him with a candle. I have let him get into debt and furnished the brains to get him out of debt, and for the past three years we have gone into practically a cash business. We did this as much for the sake of the farmer as for our own. If you would sit down with the average farmer in the spring and figure out the actual amount necessary to carry him through until fall and say, "Here, Bill, is the cash; you take

it and pay it out as you need it," I will gamble dollars to doughnuts that in sixty days he would have spent it all, and 90 per cent of the amount would be invested in things he never intended to spend it for, and he would be just as inconsiderate in paying it back promptly when due as he was in spending it, and that is just the reason Bill has to pay the price for his accommodation. I am sick and tired of hearing that the rich are getting richer, and the poor are getting poorer.

It is up to the individual to make good. There is an unwritten law that every person has got what he can take care of, for if he don't, the other fellow gets it. You can't mix business and philanthropy and have the balance on the right side of the ledger. There are reasons for successes and there are also reasons for all failures. For 25 years I have been the credit man of our firm. We have done a credit business of from $75,000 to $100,000 a year. We never lost more than a quarter of 1 per cent on our sales, and never sued but three men in that time. They say extending credit is a science—it may be so, but the whole secret of success in that line is simply keeping each individual man inside his earning capacity. One man will pay you $5 when he couldn't pay you $10; another will pay you $10 when he couldn't pay you $20—and so on up as high as the qualities of your customer will permit you to play the game. All men are selfishly honest and will pay under the ordinary stress of affairs. When a banker, merchant, or farmer gets a rating of AA in Bradstreet it means he has a record; he has been tested by fire, as it were; that he would put his family on bread and water rather than to sacrifice his commercial credit. That man has honesty, capacities to make good, and ten to one, he has the collateral. He can get anything he wants. I simply state these facts to show you that you can not handle credits in a general way. Most magazine and newspaper writers handle the subject of credits as though it was a commodity that you could shovel into a wheelbarrow or haul off in a wagon.

I served several years on the discount committee in a national bank, and I learned that when a man presents himself at a bank window asking for accommodations he must have the evidence of his collateral, his credentials, know his piece, or pack a gun, or he don't get any money, and no changes in the laws will ever help him to get it otherwise. It is true that the

farmers' paper is slow, awfully slow sometimes. He can find more foolish excuses for not paying when due, such as the bottom fell out of the well, the chimney fell off the roof, or the bull jumped over the moon. In the meantime you have intermittent periods of night sweats through the fear that the bank examiner will slip around and catch you with an overstock of musty papers (a large part of which possibly he has already hinted you had better place in the morgue; in other words, charge off to profit-and-loss account), but by gathering an increased stock of patience, much solicitation, and prayer, you drift along until you strike a bumper crop and in the end you generally get your money. One of the best and most prominent responsible farmers in this section bought an automobile and stood me off two years on a $450 grocery bill, and so it goes. But, take it all in all, the farmer is as good a risk as the merchant, artisan, and other classes, and is entitled to as good a rate as anyone. There is a new day coming for the agriculturist; his sons and daughters are awakening to the call of the efficient and scientific side of his work. The whole system is being made over. He will in time have a better appreciation of credits and will make better use of them when he gets them, but it is up to him as an individual to make good and thereby establish a community standard for general lower rates and wider extended credits, and I would further remark that the farming classes should pick the mote out of their own eyes and study the scientific and efficient side of their great calling before they criticize too deeply the business and professions of other classes.

Please excuse this hurried jumble of facts. The question of rural credit is worthy of much serious consideration.

Independent. 77:185-6. February 9, 1914.

Rural Credit and Farm-Land Banks.

Mr. Roosevelt, in writing the introduction to the report of the Commission on Country Life, which he had appointed while President, stated afresh an important truth: "We were founded as a nation of farmers, and in spite of the great growth of our industrial life it still remains true that our whole system rests

upon the farm, that the welfare of the whole community depends upon the welfare of the farmer. The strengthening of country life is the strengthening of the whole nation."

Several weeks ago we pointed out one direction in which the farmer should be encouraged to work for the strengthening of his economic status and hence for the enhancement of the general welfare. A great deal has already been done to make agriculture a science; the next thing to be done is to make farming a profession.

There is one other vital particular in which the conditions of the farming industry need radical improvement. We must radically modify the methods by which the farmer can make use of his credit in the improvement and development of his farm.

The subject of rural credit is one of vital importance to the continued and increasing welfare of our country. There are twelve million farmers in the United States. They add each year to the national wealth nearly eight and a half billion dollars. Their indebtedness is approximately six billion dollars, on which the annual interest charge is over five hundred million dollars. The farmer pays an average interest rate of 8½ per cent, a considerably higher rate than is paid by industrial corporations, railroads and municipalities. At the same time the security which the farmer is able to offer in the land on which he raises his crops is quite as stable as that offered by those corporations.

The farmer needs money to improve his property, to increase its productive power and to carry him over the time when his crop is maturing. He has abundant credit resources, but the methods open to him in this country for turning his credit into cash are crude, inequitable and costly. The farmer, as a result, has to pay too much for his money. From this condition the whole country suffers.

Last year a commission, appointed by the Southern Commercial Congress and receiving the endorsement of the United State Senate, made a study of the systems of rural credit in operation in European countries. The commission has not yet made its formal report, but a bill has already been introduced in Congress by its chairman, Senator Fletcher of Florida, for the establishment of a national farm-land bank system.

The bill provides for the establishment of national farm-land

banks of two kinds—joint stock banks and coöperative banks. The chief distinguishing characteristic of the coöperative bank is that all its patrons share in its profits in proportion to the amount of business they do with the bank. The profits of the bank are apportioned first to the stockholders, the rate of dividend to them being equal to the prevailing rate of interest in the community (but in no case exceeding the legal rate of interest in the state); and second to the patrons of the bank.

The main purpose of the farm-land bank will be to provide the farmer with money for the development of his farm properties. It will loan money for any one of three purposes: To complete the purchase of a farm; to improve and equip the farm; and to pay off a mortgage on the farm. The loans are to be made for not more than thirty-five years, at a rate of interest exactly 1 per cent higher than the rate at which the bank can get the money in the money market; secured by a first mortgage on the farm property; with a compulsory provision for the repayment of the principal of the loan in annual or semi-annual instalments. Loans are to be made only on land within the state in which the bank is situated.

The money which the bank lends is to be obtained in three ways: From its capital and accumulated surplus, from deposits, including deposits of postal savings funds, of which the farm-land bank may be made a depository, and from the sale of national land-bank bonds. These bonds are to be secured by the mortgages given by the farmers as security for the loans to them.

The farm-land bank will make the credit of the farmer more available by bringing him into touch with the money market as he never could come into touch with it unassisted. It will strengthen his credit by combining it with that of the other landowners of his neighborhood—for the underlying security of a series of land-bank bonds will naturally comprize a group of mortgages on many different properties. It will insure to him a lower rate of interest than he would be likely to obtain anywhere else, for the bank can charge only 1 per cent more than the bonds sell for, and bonds based on such excellent security ought to be salable at a decidedly lower rate of interest than is necessary for the usual farm mortgage.

The plan proposed in the Fletcher bill is modeled upon the

coöperative farm banks which have been in successful operation in Europe for many years. It seems to follow more closely than any other the plan of the *Landschaften* of Germany. The *Landschaften* in 1909 issued bonds to the amount of over $650. The loans are repayable almost entirely by installment payments, tho the borrower is at liberty to repay in whole or in part whenever he pleases. The yearly payments which the borrower makes to the *Landschaft,* known as annuities, are made up of four parts, interest, and contributions to a sinking fund, a guaranty fund, and an expense fund. The annuities in recent years have averaged about 4 per cent. When they are 4 per cent the interest would be 3 per cent, sinking fund ½ of 1 per cent, guaranty fund one-quarter of 1 per cent, expense fund ¼ of 1 per cent. These figures compare favorably with the average cost of money to the American farmer, cited above, of 8½ per cent.

The Fletcher bill is a long step in the right direction. Whether in all its details it is as good as it can be made, we do not pretend to say. That is a matter for experts who have made a careful study of the subject.

But in view of the tremendous importance of the improvement of the credit facilities of the American farmer, it is a measure that should receive the most serious attention of Congress and that without delay.

It will throw open to the farmer for the development of his plant an abundant source of cheap money.

It will enable him to use the credit which he possesses in abundant measure, but which under present conditions he can often avail himself of only at a ruinous cost.

It will introduce the tremendously valuable principle of coöperation into our rural life at a vital point.

It will help to keep the money which the farmer makes in the regions where it is made instead of encouraging its concentration in the big financial centers as is so largely the case under our present system or lack of it. The provision for the deposit of postal savings funds in the farm-land banks is particularly well adapted to secure this end.

The United States has long been far behind the countries of Europe in its development of a system of agricultural credit. The country is rapidly awakening to its lack in this regard.

The national platforms of the three great political parties contained planks calling for legislation to supply the need. The farm-land bank, on the Fletcher plan, or some modification of it, should speedily become a part of our national banking system.

Sinclair, John F. Co-operative Credit.

Chapter III. Co-operative Credit in the United States.

In striking contrast to the highly perfected systems of coöperative credit associations existing in Germany, is the almost total absence of such organizations in this country. The movement, however, is gaining headway here and we may look for its rapid extension in the near future. Only one state, Massachusetts, has so far made any legal provision for coöperative banks.

Massachusetts Co-operative Banks

Massachusetts passed an act, chapter 419 of the laws of 1909, providing for the establishment of coöperative banks. The character and powers of the associations organized under this act are as follows:

(1) Seven or more citizens associated by written agreement may, with the consent of the board of bank incorporation, organize a credit union.

(a) The words "credit union" cannot be used by any other group or association.

(2) This union may receive the savings of its members in payment for a stock-interest or on deposit; may lend to members at reasonable rates of interest the funds so accumulated; and may undertake other authorized activities within its province.

(3) Credit unions shall be subject to supervision by the board of bank commissioners.

(a) No deposits can be received unless the credit unions' by-laws have been approved by this board.

(4) The by-laws shall specify, among other things, the conditions of deposit, the duties of officers, the number requisite for a quorum, etc.

(5) Each of the stockholders has one vote. Their ultimate authority in the management of the association's affairs is prac-

tically complete. They may decide directly any question of policy; on appeal of two members they may, by majority vote, reverse decisions of the credit committee or board of directors.

(6) At the annual meeting the members elect a board of five or more directors; a credit committee of three or more; and a supervisory committee of three. No director may be on either of these committees.

(7) The credit committee must approve every loan of the association's money. Any applicant may appeal from them to the board of directors.

(8) The directors exercise general management subject to review. They elect the officers from among their number, a president, vice-president, clerk and treasurer. They may also expel any member for due cause after a hearing, in which case the money contributed must be returned.

(9) The supervising committee has oversight of financial affairs and, in addition, may review acts of the officers, directors and credit committee. My majority vote they may call a stockholders' meeting to review any official act or revise any by-law. They may also, by unanimous vote, suspend any officer or member of the credit committee, being required in the latter case to call a meeting of the society within seven days of such suspension.

(10) None of the committee members or directors may receive compensation, except the officers.

(11) The funds of the association must be either loaned to members or deposited in savings banks or trust companies incorporated under the Massachusetts law, or in national banks located within the state.

(12) Dividends may be declared by the directors just before the annual meeting. But before taking such action, they must set apart 20 per cent of the net income fund against contingencies or losses during succeeding years. The members at any annual meeting may increase the proportion of earnings to be held back for this fund, and whenever it equals or exceeds the contributed capital in amount, they may reduce this proportion.

(13) The union may be dissolved at any meeting especially called for the purpose and attended by two-thirds of the members, providing the directors have unanimously recommended it and providing also that not more than ten members object there-

to, either in person or in writing. In the event of dissolution, a committee of three shall be elected to liquidate the assets.

(14) Within twenty days after the last business day of October in each year, every union must file with the bank commissioner a report signed by the president, the treasurer and a majority of the supervisory committee, with a penalty of $5.00 for each delinquent day.

In commenting on this minutely detailed law the bank commissioner, in his report for 1910, enumerates as the salient purposes and essential features of credit banks the following:

(1) Reciprocity among the members and a mutual concern for the common welfare of all, whether borrowers or lenders.

(2) Equality of personal influence exerted in voting.

(3) Membership easily gained and democratic. The par value of shares should be small (it averages about $5.00), in order to induce membership. Installment payments to be allowed where they constitute any great encouragement.

(4) Protection against individual disloyalty by restricting the amount any one member may deposit, thus insuring against temporary embarrassment through the sudden withdrawal of large sums.

(5) The restriction of loans to strictly remunerative purposes, each applicant to state the intended use of his proposed loan and measures provided whereby it may be determined whether the loan is actually used for that purpose.

(6) The limiting of membership in any one society to those who are intimately acquainted with each other, so that the responsibility of each may be well understood.

(7) The insistence upon sound character as the first qualification for membership. The recognition of integrity and personal industry as the only safe and lasting basis of credit. For this reason, personal earning-power rather than property in sight may be considered in passing on occasional loans where the tangible security seems insufficient, especially if other members will consent to guarantee repayment.

(8) Punctual meeting of all obligations on maturity to be systematically required of all members.

However accurate the foregoing may be as a statement of the true fundamentals of short-time credit societies, it seems manifest that the Massachusetts law as it now reads is needlessly

prescriptive and the machinery it requires excessively cumbersome. Undoubtedly it embodies the fundamental ideas of the Raiffeisen system, which is championed by the Hon. Alphonse Desjardins of Levis, Quebec, the man who led the agitation resulting in the passage of this act. But that his original criticism of the particular form of the act did not prevail seems evident from his later statement to the present author: "I am free to tell you that it does not realize my ideal, in that it is too complicated and therefore discouraging for the poor people seeking incorporation."

Quite probably this is one important reason why in the two years between the passage of the act in 1909 and October 31, 1911, only seventeen credit unions were organized; reporting on the latter date 1,623 members and total assets of $27,038.35. Every one of these is a city union, no beginning having been made so far in the country districts.

Mention must be made of one credit union in Manchester, N. H., as showing the possibility of operating these societies without special legislation. This union also is the fruit of Mr. Desjardins' work, being organized primarily for the benefit of French workingmen.

In connection with the absolute lack of credit unions in this country it is interesting to note that although the United States Department of Agriculture issued a report of such rural associations in 1892, it has since that time done nothing to encourage their establishment.

Recently, however, certain private individuals and associations have given this subject of rural credit considerable attention. The American Bankers' Association, for instance, has recently appointed a committee to study the subject. Possibly the inspiration for this move came most directly from Hon. Myron T. Herrick, a prominent banker and ex-governor of Ohio, who is an influential member of this committee.

But more promising of concrete results was the Rural Credit Conference, called together recently by the Southern Commercial Congress. This was held at Nashville, Tenn., during the first week in April, 1912, and was attended by men from twenty-seven state. Some came as chosen delegates, others on their own initiative; but all classes were represented, bankers, economists, business and professional men and farmers from far and near.

The main purpose of this gathering was to learn of the European experience with rural credit. The central figure of the meeting was the Hon. David Lubin, formerly of Sacramento, California, but now American representative on the International Institute of Agriculture, in Rome, Italy. In his opening address he explained the principle underlying all forms of coöperative credit, namely, that a group of men combining to furnish a collective guarantee can obtain money on that security at lower interest cost than as individuals.

The practical result of the meeting was the decision to send a committee, including two delegates from each state in the Union, to Europe to study credit methods at first hand.

Hearst's Magazine. 23:417-25. March, 1913.

Ready Money for the Farmer. Frank Parker Stockbridge.

Now for the first time we Americans are beginning to learn something of the *business* of farming.

We've learned the *art* of farming. Every important technical improvement in agriculture has originated in the United States. American plows and harvesters, threshing-machines and tractors, tools and implements, have revolutionized this art.

We know the *science* of farming, too. In the Department of Agricultural and the state agricultural colleges and experiment stations, thousands of trained investigators have developed agricultural science until to-day there is more accurate and useful knowledge of proper and profitable farming methods available to the American farmer, without cost, than there ever was before, here or anywhere else, since time began.

We have more available agricultural land of the best quality than almost any other nation or group of nations. We have a higher average of soil fertility than Europe; almost as much untilled, virgin soil as we have yet put under the plow. And yet——

The cost of farm products to the consumer is increasing faster in America than anywhere else in the world. And in spite of this the profits of the American farmer are not increasing except in a few favored localities and are diminishing in some

sections. Germany is getting crops nearly twice as large as we get from every acre of land. And in France the farmer has a surplus to invest in *rentes,* even though the people pay less for their food than we do. Little Denmark's two and one-half million people have $250,000,000 in their savings banks, export $90,000,000 worth of butter, eggs, and bacon annually and have climbed, in less than a century, from a state of almost destitution to a higher average of prosperity than ever before existed in an entire nation in all history—and all from farming.

They don't know any more about the *science* of farming than we do—these European farmers who make profits out of poor soil and low prices. They are no more skilful in the *art* of farming than we are—they've learned most of that from us. What they *do* know, is the *business* of farming.

Capital—which means, of course, credit—costs the American farmer twice what his European competitor has to pay for it. That isn't because credit is more expensive here than abroad, for American business men other than farmers can obtain all the credit they need as cheaply as those of Europe. It's because the middlemen who deal in credit—the bankers—find the American farmer an "easy mark" and profit from his necessities, while our farmers haven't learned enough of business principles to realize that they can control the credit market, through coöperation, just as easily as they now control the lemon market or the apple market and could control the fertilizer market if they set out to do so.

Coöperation—that's the trick.

The individual farmer's credit isn't any better in Europe than it is in America. But the combined credit of any group of neighboring farmers anywhere in the world is gilt-edged security on which the money markets of the world will lend almost as cheaply as on government bonds!

Herr Frederick William Raiffeisen, a poor, half-blind burgomaster of Weyerbusch, conceived this simple, elementary principle of finance in 1849. It took him fourteen years to gain the confidence of enough farmers to put the principle into practice. Then the first "Raiffeisen Bank" was started at Anhausen, in the Rhine Valley. To-day the words "Raiffeisen" and "cheap money for the farmers" are synonymous wherever the business of farming has been put on an equal financial footing with other busi-

ness enterprises—and that means all over Europe, the more civilized parts of Asia, and even sections of Africa.

A Raiffeisen bank is a simple institution. A group of neighbors get together, agree to pool their credit resources without limit and so jointly borrow money which the association in turn lends to its members as they need it. That's all.

A farmer in Westphalia, for instance, loses a cow. It will take $47 to buy another, and he hasn't the $47. His neighbor on the east has a sick horse, and needs $125, of which he has already $25, in order to get his spring plowing done. Another neighbor is $30 short of enough to pay the cost of seed and labor for putting an additional ten acres under cultivation. Still another farmer, living a couple of miles down the road but known to all of the others, wants to try a new method of subsoil plowing which the Imperial Ministry of Agriculture is recommending for a certain type of soil.

The first man calls his neighbors together—this is happening in Germany almost every day. They bring in all the farmers from an area of perhaps five miles radius. Each has or anticipates some special need for additional capital—capital that will enable them to increase the fertility of their farms and the value of their crops and so repay the amount required and leave a fair profit from its use. Every one of them could and would increase the output and profits of his farm and grow the crops best adapted to his particular conditions, in accordance with the latest developments in agricultural science and art, *if* he had the cash capital to enable him to do so. And that means: prosperity for the farmer, cheaper food for the people of the towns, stability and growth for industry and commerce—based on the increased buying power of all the people—progress and happiness for the whole nation.

You follow the sequence, don't you? Very well—let's get back to our Westphalian farmers.

They meet, and decide to organize a Raiffeisen bank. One man wants to get money with which to buy a grade boar, and so improve the quality of his Westphalian hams. He lives six miles down the road, and is a stranger to the others.

"You can't join," they tell him. "This bank must be a neighborhood affair, for how could we feel safe in lending money to those whom we do not see every day? Go back and borrow

from your own Raiffeisen bank, or organize one if there is none in your vicinity."

That's the first principle of coöperative credit banking by the Raiffeisen plan—every member must be known to all the other members, for each member is pledging his own credit, *without limit,* for the indebtedness of the group.

Each member of the new banking company signs a pledge of his entire resources for the bank's debts when he subscribes for his shares. Under German laws, they must have a minimum share capital of ten marks ($2.38) per member. The average for all Germany is nearly twenty marks per member, and that is the amount our Westphalian farmers put in, each an equal share, until the 92 of them—all the farmers in this particular valley—have contributed $4.76 each to make a total banking capital of $438.

Nothing very big about that, is there? How are they going to lend Hans $47 and Fritz $100, and supply funds for all the seeds and fertilizer and implements and other things for which August and Otto and Wilhelm and the rest of the 92 need money?

Wait a minute and you'll see what coöperative credit can do.

They file their articles of incorporation—a simple and inexpensive legal process—and in a few days their charter is issued. Now they are full-fledged bankers, entitled to deal in credit just like the bankers in the cities—with these exceptions: they may lend only to their own members, who must be their own neighbors, and they may lend only for productive purposes, which must be stated in the application for each loan.

They elect officers, all from their own membership, and all without salaries except the cashier. For that office they pick one whose farm is near the center of the district, for there is no banking-house to be built or rented—a back room in the cashier's house is the banking-office, and his salary of ten or twelve marks a month covers the rent.

Now the applications for loans come in—many times the amount of the new bank's capital. Where is the money to come from? Out of hiding, some of it, for as soon as the new bank —their *own* bank—is open for business, the thriftier members uncover their little hoards and deposit them to draw interest and be loaned to their neighbors. But even these deposits do not

provide funds for all the would-be borrowers. Very well, the new Raiffeisen bank gets the rest of the money it needs in the open money market; right at the bank, the best and the biggest bank in the nearest town or in any town in Germany. Is there a bank or a banker anywhere in the world who wouldn't lend, to the limit of possible demands, on the security of a note backed by the combined guarantee of the farmers of an entire agricultural community, every one of them pledging all his individual resources for the debts of the group?

Now our Westphalian bank is in full swing. Our friend who started it has given his note, payable in one year, for $47, with two of his neighbors as indorsers, and can buy that cow. Fritz gets his $100 for a horse on a ten-year-instalment note. Otto doesn't have to give indorsers, because everybody in the valley knows that Otto's word is as good as a mortgage. Of course, the banker in town wouldn't know that, and Otto would have to give a mortgage and pay 6 or 7 or 8 per cent if he had been able to borrow from the town bank at all, which is unlikely. And even if he had been able and wanted to pay back the loan before it was due, he couldn't have done so—the banker must have his interest on the mortgage for the full term.

Under the Raiffeisen system, if Hans wants to pay back that $47 at the end of a month, he can do it—and it will have cost him in interest 17 cents! If he keeps it three months it costs him 50 cents; $2 if he uses it for a whole year. And that is all —no notary's fees, no fees for examining title or recording a mortgage, no bonus, no commissions, none of the subterfuges by which the rural American usurer evades the law and "soaks" the farmer.

If Hans, after borrowing the $47, should decide that, instead of buying a cow, which he stated as his purpose when he applied for the loan, he would buy a new stove and a dress for his *hausfrau,* quick would be the penalty imposed by the neighborhood Raiffeisen association—for his neighbors would know, of course, what he had done with the money. Not only would he be required to pay back the entire amount at once, if he had to sell another cow to do it, but he would be expelled from membership in the bank. So Hans takes pains not to borrow money unnecessarily and to spend it wisely for the productive purposes for which it is loaned.

There's the whole secret of the advantage the European farmer has over the American farmer—the Raiffeisen bank. Viewed by itself, a single Raiffeisen bank looks like a trivial and insignificant institution. They average only about $440 of paid-up capital and ninety-two members each. But the 15,517 of them existing in 1910 had over $500,000,000 of working capital, with which they made $1,500,000,000 of loans. The Raiffeisen banks, through their provincial federations and general banking centers dealing exclusively with them, are able to obtain all the capital they require for the use of their members in the open money market in competition with the biggest and most firmly-established industrial enterprises. One group of 12,614 banks, belonging to the National Federation, had 1,163,186 members in 1909. The total business done by this group in the course of a year was $1,061,568,167.08, of which $214,694,794 was in loans granted during that calendar year. More than 28 per cent of all the loans outstanding were current account loans, payable at any time, the interest ceasing when repayment was made, *and the average rate of the interest was 4.4 per cent, as against 8.5 per cent which the average American farmer pays when he is able to borrow at all.*

You see clearly, don't you, how the European farmer has, through the Raiffeisen banks, an immense advantage over the American farmer in being able to obtain cheap capital for current expenses? I shall try to make it even clearer a little further along, when we begin to consider the condition the American farmer finds himself in, but first let me tell briefly of another great advantage in obtaining cheap capital for permanent improvements.

The best example of this is to be found in France—the *Crédit Foncier.* From this national institution, financed by the French people and the great bankers of Paris, any land owner may borrow on long time, at low interest, with principal and interest payable in instalments, for the purpose of making permanent improvements on his land—new buildings, ditching, tiling, walls, or orchards—anything that will increase the value of the property. It is readily seen that a much larger loan proportionate to the original value of the land is justified under these conditions than if, for instance, the farmer were mortgaging his place to buy an automobile. The bonds of the *Crédit*

Foncier, which pay 3 per cent a year, are eagerly sought as investments for savings by the thrifty French people. And in Germany, in Denmark, in Belgium, and elsewhere in Europe, the cooperative idea has been applied to this problem of providing cheap capital on long-time mortgages for permanent improvements. The German *Landschaften* are cooperative associations of landowners, lending only to members on mortgages, which usually run over fifty years and are payable in small equal yearly instalments which eventually amortize the principal while absorbing the 5 per cent interest. The *Landschaften* bonds at 4 per cent sell at par in the most conservative money markets of Germany, and there is never the slightest difficulty in obtaining sufficient funds to meet all borrowing demands. *And as a result of the ease with which permanent capital can thus be obtained, the farms of Germany and France and the rest of Europe are increasing in value and productivity many times as rapidly as are those of America.*

There is another system of cooperative credit banking in Germany, the Schulze-Delitzsch banks, nearly 1,000 of them, organized on the same general plan as the Raiffeisen banks, but operating principally in the cities and towns. They have an average membership of 639, as against the average of 92 members in each Raiffeisen bank. Their share capital is larger per member and they carry on every kind of banking business. Their primary object is, however, that of granting loans for short periods to their members. In 1910 these loans amounted to $1,000,000,000. And while the rate of interest of the Schulze-Delitzsch banks is a trifle higher than the average charged by the Raiffeisen banks, the dividend returns to members out of the profits are larger, so that the farmers, who constitute about 26 per cent of the borrowers from the Schulze-Delitzsch banks, fare equally well whichever source they obtain their credit capital from.

Is it any wonder, then, that Europe has us agriculturally beaten to the traditional frazzle? That Germany, for instance, produces on a given number of acres $913,541,000 more of wheat, rye, barley, oats, and potatoes than the United States does?

It isn't because they know more of the science of farming than we know; not that they know any tricks of the art of farming that we don't know, but simply because in a business way

these European farmers are enabled to put into practice the science and art that our farmers cannot afford to apply.

Consider, for a moment, what the American farmer is up against. All American banking practice, so far as the farmer is concerned, is based upon the idea of mortgage security and interest over a period of years. If this were the general condition obtaining throughout all business, the farmer would have less ground for complaint. But while the farmers of America are paying $510,000,000 every year as interest on $6,000,000,000 of money borrowed for the necessary purposes of their business—an average rate of 8½ per cent a year as computed by Mr. B. F. Yoakum, chairman of the Frisco Railroad—the average rate of interest on short time loans to business men is only 4.11 per cent. Your average business man can take his six months' commercial paper into the open money market and obtain capital for his reasonable business needs at 3.56 per cent a year. The stock exchange operator, borrowing $5,000 or more in the New York "call money" market, where the rate of interest has no legal limit but the blue sky, has had to pay an average rate of only 2.46 per cent a year for a long period of years.

The American farmers' burden of interest amounts to five hundred and ten million dollars a year—practically the total value of the nation's wheat crop—paid by the farmer for the use of the capital required in his business! That is the estimate of Mr. Yoakum, based on carefully gathered information and statistics. Here is an average credit of $1,000 per farmer paying an average rate of 8½ per cent a year—*an interest charge that means that if every farmer who raises wheat could plow, sow, harvest, and market that wheat entirely without expense in time or money, the total proceeds of the whole crop would barely pay the cost of the credit needed for the operation of the farm!*

The gossips in any country village will tell you true stories of usury and ruin until your heart sickens. I know one little New York State village in which there are a national bank, a state bank, a private bank, and about a dozen retired farmers who do not call themselves bankers. Every one of these money-lenders is rich and getting richer. The surrounding country is as fertile, prolific, and valuable as any in America, but the farmers are getting poorer as the village money-lenders

are getting richer. The farms are, one by one, coming into the possession of the bankers, who apparently conduct their business with the end of eventually getting all that the farmer has. Yet there is nothing illegal about their operations—and what is the farmer to do? He can take his choice—between borrowing from the village usurer and losing his farm gradually, or trying to operate without capital and losing it suddenly. Anyone familiar with rural conditions will tell you it is more often the case than not that the farmer has to sell his crop to his creditors for what they are willing to give.

Why not adopt the Raiffeisen system and the Landschaften idea in America, then? Wouldn't they work here as well as they do in Europe? The answer is, that, the Raiffeisen plan *has* been adopted in America and it *does* work.

As I said in the beginning of this article, we're just beginning to learn the *business* of farming in America. And our teachers in this branch of business are the same people who have been our best teachers in many other lines of business—the Jews. *The only farmers in America who can obtain capital for the conduct of their business, on terms favorable enough to compare with the low cost of credit to the European farmer or the city business man, are the Jewish farmers of New York, Connecticut and New Jersey who are members of the only cooperative agricultural credit associations in the United States.*

These Jewish farmers can obtain capital for current expenses at a cost of 2 per cent a year. That they thus have a tremendous advantage over the average American farmer, who pays 8½ per cent a year for the capital he needs, requires no explanation or demonstration. Nor is this advantage due to any racial difference, to superior agricultural qualifications—to anything, in short, except the one fact that the Jewish farmers in America have adapted to American conditions the European cooperative credit system.

Six years ago Mr. Leonard G. Robinson, general manager of the Jewish Agricultural and Industrial Aid Society of New York, as a result of his investigation of the condition of the Jewish farmer in America, determined that the most helpful service his organization could render would be to promote among the farmers of his race the establishment of cooperative credit societies modeled on the European plan.

"I found appalling instances of usury by the score," said Mr. Robinson, telling me how the idea of enabling the Jewish farmer to finance himself had developed in his mind. "There seemed to be no limit to the rapacity of the average rural banker. I found as high as 300 per cent a year in some cases being extorted from needy farmers. You cannot blame the banker entirely. He is in business to make money—not for the promotion of agriculture. It is only recently that any considerable number of bankers have grasped the fundamental truth that whatever stimulates agricultural development at once reacts upon general business, to the advantage of bankers, manufacturers, and merchants alike.

"I became convinced through my investigations that the individual farmer can never compete successfully with the urban borrower for banking credit. The business man is where the banker can watch him, can measure his character and his ability and estimate his profits. The farmer is isolated, out of touch most of the time with the banker. Anything might happen on the farm, and the money-lender would not know of it until too late to protect his loan. It is only good business, therefore, that the banker should discriminate against the individual farmer and demand from him better security and higher interest."

Some four thousand Jewish farmers Mr. Robinson and his society had found in the East—four groups of them in New York, four more in Connecticut, two or three in New Jersey. Not especially good farmers any of them; not particularly bad farmers; none of them wealthy and a few unable to make ends meet—in short, about like other American farmers in intelligence, industry, and agricultural ability.

In 1909, after two years of urgent solicitation on Mr. Robinson's part, the directors of the Jewish Agricultural and Industrial Aid Society authorized the organization of cooperative credit unions on the Raiffeisen plan wherever a colony of Jewish farmers was to be found. Two years later, May 1, 1911, the first prototype on American soil of the German Raiffeisen Bank was organized through Mr. Robinson's initiative.

Three cooperative credit unions were first organized, one in Rensselaer County, New York, and the two others in Fairfield County, and at Ellington, Connecticut. Shares in these associations were sold at $5 each. The New York State Union had

32 members who took 96 shares—an average investment of $15 per member. In the first 16 months of its existence this particular association had made 52 short-term loans to its members, amounting to $3,025—an average of $58.17 per loan, of which $1,635 had been repaid. On its own credit, representing as it does the combined credit of its farm members, this Rensselaer County association, like the others established by Mr. Robinson, is able to borrow through existing financial channels all that it needs to lend to its members.

And they pay 2 per cent interest!

It does not take any great stretch of the imagination to see the advantage these Jewish farmers have over American farmers generally. It means, clearly, that the Jewish farmer is in a position to apply whatever knowledge and skill the development of agricultural science and art may offer, whenever he desires to do so. It means that he can increase the productivity of his farm as rapidly as existing agricultural knowledge and his own industry enable him to do so. And that is just what the American farmer cannot do and ought not to be expected to do under existing agricultural financial conditions.

What these Jews have done is, as I have already said, to begin to teach the American farmer the *business* of farming. The great business teachers of the world have had to point the way in this as in other lines of business.

The whole United States has suddenly taken an interest, within the last year, in this question of agricultural finance. Another Jew, David Lubin, the American founder and director of the great International Institute of Agriculture at Rome, has been stirring up the bankers and business men of America to the realization of the necessity for providing better agricultural credit facilities if this country is to prosper agriculturally as Europe prospers to-day. President Taft recently sent a circular letter to the governors of all the states, asking them to use their influence to have laws enacted authorizing the establishment of cooperative banks on the Raiffeisen plan. The Hon. Myron T. Herrick, United States ambassador to France, who is president of a great bank in Cleveland, has sent voluminous reports and personally delivered lengthy addresses before business and banking conventions, urging the adoption in America of the Raiffeisen plan. At the recent conference of governors, the necessity

of doing something to make it possible for the farmer to borrow money on terms at least equal to those offered men engaged in other businesses was the principal topic of discussion.

Undoubtedly laws framed explicitly for the purpose of promoting the organization of such banks would be of service.[1] Mr. Robinson hunted in vain through the statute-books of New York, Connecticut, and New Jersey for such laws. But he found it perfectly feasible in all of these states to organize under the ordinary membership corporation laws. He found that Massachusetts, in 1909, had enacted a law almost perfectly adapted to the organization and incorporation of cooperative associations—and not a single farmer or group of farmers has made the slightest attempt to take advantage of it.

"This movement, like every other great movement, cannot start of its own initiative or grow through its own momentum," said Mr. Robinson, when I asked him why Massachusetts farmers had not organized cooperative banks under this law. "The farmer is the most conservative person on earth. He is the last man to think of cooperating with his neighbor in anything—even in building a road to town. It takes leadership and persistent, long-continued and diligent effort to get the farmers to unite for any common purpose. It took Raiffeisen fourteen years to get the German farmers to see the advantage to themselves of cooperation in finance. It took us four years, after I had found the Raiffeisen system was the one best adapted to the needs of the Jewish farmers, before we could get the first of our credit associations organized. We have ten in operation now and are organizing more all the time. It becomes easier, of course, as time goes on, but all the laws and all the reports and all the speeches and all the discussions in the world will not give the American farmers the credit facilities they ought to have unless active leaders, who know the farmers and have their confidence, get out among them and work to organize and build up the local associations, just as they have been built up in Germany and other parts of Europe."

What the American farmer needs—if I have not already made it clear, let me emphasize it here—is the fluid dollar; that is, the capital—which *always* means credit—that he can take out of the bank when he needs it, put back in the bank when he

[1] A bill for such a law is now before the New York Legislature.

gets through with it, and use for productive agricultural purposes at a cost low enough to enable him to make a profit from its use. That is what the American business man has in every line of business except the business of farming.

We are up against a new condition in this country—a condition in which nearly half of the people live in the cities, which are increasing in population at a faster rate than the rural districts. There can never be any cessation in the increasing cost of food to the non-producer of food until our farming territory is fully occupied, intensively cultivated, and raised to its highest possible degree of productivity. And it is perfectly futile to ask the farmer to do this under financial conditions that would wipe every railroad off the map, close every factory, and paralyze every brach of commerce, were the business men of America compelled to pay the price for their capital which the American farmer has to pay for his.

Taft, William Howard.

Letter to the Governors of the States in Advocacy of Agricultural Credit Legislation.

EXECUTIVE OFFICES,
Beverly, Mass., October 11, 1912.

MY DEAR GOVERNOR:

For some months past, at my direction, the Department of State, through its diplomatic officers in Europe, has been engaged in an investigation of the agricultural credit systems in operation in certain of the European countries. Although the investigation is still under way, a preliminary report has been submitted, together with the recommendations of Ambassador Myron T. Herrick in connection with my proposal to adopt this system in the United States.

A study of these reports and of the recommendations of Ambassador Herrick, which I am sending you, convinces me of the adaptability to American conditions of the cooperative-credit plan as set forth in the organization of the Raiffeisen banks of Germany. The establishment and conduct of such banks, however, are matters for state control. I suggest, also, the establishment of land-mortgage banks under state charters and the

formation of cooperative mortgage-bond societies along the lines of the Landschaften societies of Germany, provided that uniform state legislation can be secured to govern their organization and operation. As a later step I favor the enactment of laws by Congress permitting the organization of national land-mortgage banks, to be operated under strict government supervision, with the power to guarantee and market the guaranteed debenture bonds of the state land-mortgage banks or cooperative societies. I recommend for your consideration the report and recommendations of Ambassador Herrick, now published by the Department of State for general distribution. This report should receive the attention of everyone interested in the problem of agricultural finance and, indeed, of all persons interested in the welfare of the American farmer.

The need for the establishment of an adequate financial system as an aid to the farmers of this country is now quite generally recognized. The governmental initiative, taken by the Department of State under instructions issued by my direction to the diplomatic officers in Europe on March 18 last, have been effectively supplemented by the American Bankers' Association, the Southern Commercial Congress, and by many other bodies by whom this question has been agitated, and valuable work has been done in studying and disseminating knowledge of those great instrumentalities which have been created in foreign lands to extend to their agriculturists credit facilities equal in benefits to those enjoyed by their industrial and commercial organizations. The handicap placed upon the American farmer through the lack of such a system and the loss sustained by the whole citizenship of the Nation because of this failure to assist the farmers to the utmost development of our agricultural resources is readily apparent.

The twelve millions of farmers of the United States add each year to the national wealth $8,400,000,000. They are doing this on a borrowed capital of $6,040,000,000. On this sum they pay annually interest charges of $510,000,000. Counting commissions and renewal charges, the interest rate paid by the farmer of this country is averaged at 8½ per cent, as compared to a rate of 4½ to 3½ per cent paid by the farmer, for instance, of France or Germany.

Again, the interest rate paid by the American farmer is con-

siderably higher than that paid by our industrial corporations, railroads, or municipalities. Yet, I think, it will be admitted that the security offered by the farmer in his farm lands is quite as sound as that offered by industrial corporations. Why, then, will not the investor furnish the farmer with money at as advantageous rates as he is willing to supply it to the industrial corporations? Obviously, the advantage enjoyed by the industrial corporation lies in the financial machinery at its command, which permits it to place its offer before the investor in a more attractive and more readily negotiable form. The farmer lacks this machinery, and, lacking it, he suffers unreasonably. This is not theory. Through all the changing conditions of a century the soundness and practicability of such financial machinery, based upon the peculiar credit needs of the agriculturist, has been tried out, and so successful has been its operation that in Germany, in times of financial stress, money has been taken out of the commercial field and placed in the keeping of that Empire's agricultural cooperative banks for safety. The value of this assistance to the farmer receives unquestionable testimonial in the growth of the system in the countries of Europe. More specifically this advantage may be seen in the fact that through this machinery the German farmer has received money, at times, at rates lower than those current in commercial loans.

But the advantages to be gained by the adoption of this plan go beyond the direct saving in interest charges to the farmer. The great necessity which prompted the establishment and extension of this plan throughout Europe was that of checking the rapidly advancing increases in the cost of foodstuffs, brought about by the inevitable increase in consumption and the failure of the long-drained soil to afford a corresponding increase in production. That problem faces the people of this country today; not in so severe a form as it threatened the older countries of Europe, but still as a great and pressing economic problem.

In Europe this problem has been successfully met, first, by reducing the cost to the farmer of producing his crops, and, secondly, by increasing his production through the adoption of improved methods of cultivation. Both the federal and state governments in this country have done much to afford the farmers instruction in improved agricultural methods. But it

still remains for us to reduce the cost of the farmer's production by affording him the necessary capital for the exploitation of his soil upon the most adantageous terms. He must be afforded the money necessary for him to adopt improved methods. It must be made profitable for him to place every acre of his ground under cultivation. This offers the consumer relief from the increasing cost of foodstuffs.

It is this portion of the task that still remains to be performed in this country, and it is in this task that I invite your cooperation.

The country enjoys to-day great prosperity. The factories are busy, the workingmen employed, and everywhere the wheels of industry hum. The farmer shares in this general prosperity. We have come to look upon the farmer of to-day as one of our most prosperous citizens. The proposal which I make is not to subsidize the American farmer. Fortunately for this country, he does not need it, nor would he accept it. What this plan offers is a means to secure to this country greater productivity, at less cost, from the farms that are now under cultivation, and, above all, to give us more farms and more farmers. It will make it profitable for the farmer to return to the cultivation of the abandoned farms of the East and to open up the vast areas of untilled land in the West.

All this can be done, and I am convinced that in this country it must be done, by the efforts of the farmer himself. It is natural that some of the European governments should have extended a paternal protection over the systems of agricultural finance and to have given them financial as well as legal assistance. This, however, must be guarded against in this country. We must establish a credit system of, for, and by the farmers of the United States. It were better, otherwise, not to consider the matter at all. It is an interesting commentary on the value of paternalistic governmental support to note that this plan of agricultural cooperative credit has thrived best—in fact, has enjoyed a substantial development only—in those countries where the movement has grown up from the farmers and where the government has to the greatest degree refrained from attempts artificially to nurture the plan by subsidy, and has restrained its interference to the proper field of imposing restrictional legislation for the purpose of preventing speculation.

The entire field of agricultural cooperative credit is properly divisible into two parts: First, the cooperative societies of farmers, formed for the purpose of obtaining personal credit, and, secondly, the societies or private corporations formed to create a sound security in land mortgages for the purpose of gaining a national or international market for bonds based upon farmland mortgages. Both of these forms of cooperative credit may be found in many of the European countries under varying forms of organization. The general principles, however, are very much the same.

It is not practicable here to go into the details of the organization followed in European countries in the formation of these cooperative societies. A very good law has been enacted by the State of Massachusetts allowing the incorporation of credit unions, which should furnish an excellent example for other states. Their establishment is generally a matter for state legislation and encouragement, their organization and management are wonderfully simple, and the experience of the European countries shows that their success is practically inevitable where the environment is congenial to their growth and where proper laws are passed for their conduct. Although undoubtedly the organization followed in the European countries could not be adopted in its entirety in this country, I would advocate the general principles followed by the so-called Raiffeisen banks of Germany. These smaller societies should restrict their loans to personal credit. They are not intended to make large loans on land mortgages, although, indirectly, the lands of all the members form the security. Above all, the cardinal principle should be followed that all money loaned should be for a strictly creative purpose. No loan for the purchase of anything merely for consumption should be tolerated.

The business of furnishing money on loans on real estate is the proper province of the cooperative societies or private corporations, which I have placed in the second class. In Germany this is done through cooperative societies known as Landschaften and through mortgage banks. In France it is done through the *Crédit Foncier*.

The chief advantages brought to farmers through such institutions are lower interest rates and easy amortization, whereby the borrowing farmer may repay his loan bit by bit, extending

these payments over a long number of years. Thus, his obligations are made proportionate to his annual receipts from the exploitation of his soil, and the danger of foreclosure is vastly reduced. To appreciate what this amortization plan would mean to the farmers of this country, it is only necessary to consider the foreclosure records of some of our states.

It is not my purpose here to lay down any one plan as necessarily the one most suitable for adoption in the United States. From the reports of our ambassadors and ministers in Europe and from the recommendations of Ambassador Herrick, to whom was given the task of compiling from these the general report, I am inclined to suggest the suitability of organizations similar to the German land-mortgage banks for incorporation under state charters in this country. It will be most desirable, if not, indeed, essential, that the laws creating and governing such institutions should be uniform throughout the states, in order that they might be well understood by the investor, and their debentures should be given character both at home and abroad. As a later step it may prove advisable to urge the enactment by Congress of laws permitting the creation of national land-mortgage banks similar to those of Germany and France, with limited privileges, and surrounded and guarded by strict supervision, but with sufficient appeal to American initiative and opportunity, with the power to guarantee and market a guaranteed debenture bond of the state mortgage bank or cooperative society. Securities issued by such national institutions would probably find a ready market in Europe at low rates of interest, since they are a favorite and familiar form of investment in those countries by the conservative investor.

The most essential point to bear in mind is the need for the assumption by the federal and state government of the responsibility for economically and honestly conducted institutions. Such assumption is the essential precedent for obtaining the confidence of the American as well as the European investing public. In this field, as in all others, there is room for harmful exploitation for personal gain. That must be guarded against. Therefore, I invite you to make this matter the subject of earnest study and exchange of views between the state executives, and I now extend to you, with the governors of other states, a cordial invitation to confer with me in Washington, on

the occasion of the next annual conference of governors, in order to consider means for the adoption of an agricultural credit system as a benefit to the American farmer. I understand that the congress of governors is to occur in December. Were not the interval so short, my conviction of the importance of this subject would impel me to invite you to a special conference at a still earlier date.

Renewing my request for your hearty cooperation in a work of such nation-wide benefit to the farmer, the consumer, and, indeed, to the nation at large.

I am, my dear governor, very sincerely yours.

United States. State Department. Information Division.

Preliminary Report on Land and Agricultural Credit in Europe.

It is the purpose of this report to give but a brief description of the land and agricultural credit associations and corporations in Europe, their origin, development, and relations to the state, the laws creating and governing them, the results obtained for the farmer and investor, and a few suggestions for improving the land and agricultural credit facilities in the United States.

The investigation conducted thus far warrants the conclusion that land and agricultural credit are so thoroughly organized in most of the European nations that real-estate securities are as liquid and sound as municipal bonds, while the honest, capable, and industrious farmer is able to supply himself with working funds for short or long time when desired. The institutions and also the systems devised for these objects have certain basic features in common, but vary considerably in type, and thereby show a remarkable adaptability to all sorts of social and economical conditions such as exist in America. The rates of interest at which they are able to obtain and lend money fall even below the European commercial rate and are about one-third to one-half less than what prevail in the United States.

Cooperative Credit Associations

Personal credit in agricultural Europe is obtained usually by means of the cooperative credit associations. They are also used by artisans and small tradespeople in the towns and cities.

These associations are in fact the only banks which the farmers will patronize for short-time loans in the nations where they abound in the greatest numbers. With their aid poverty and usury have been banished, sterile fields have been made fertile, production has been increased, and agriculture and agricultural science raised to the highest point. Their educational influence is no less marked. They have taught the farmers the uses of credit as well as of cash, given them a commercial instinct and business knowledge, and stimulated them to associated action. They have encouraged thrift and saving, created a feeling of independence and self-reliance, and even elevated their moral tone.

The picture can hardly be overdrawn. Every traveler who visits the places where these little associations exist speaks in glowing phrases of the prosperity and contentment that prevail. They are organized on such simple lines that their management requires only ordinary intelligence. Failures have rarely occurred. In France and other countries they hold a record of having never lost a cent. The working capital and number of members of individual associations are so small as to be insignificant, yet they do one-third of the banking business of Italy; while the combined amount of their operations in Germany equal that of the commercial banks. But the mutual banks, both in town and country, are looked upon with favor in the financial world because they keep millions of dollars of petty sums in circulation which, except for them, would be idle and hoarded. They are, in fact, feeders for the commercial banking system.

In 1909 in Belgium 458 banks, with a membership of 25,762, had outstanding (roughly calculated) $4,000,000 of loans; in France 96 regional banks did upward of $25,000,000 of business on a capital of $2,983,646, while the 2,983 local banks, with a membership of 133,382 farmers, had $2,622,241 of capital and a record of over $20,500,000 of operations. There were nearly 6,000 banks in Austria. The membership was over 725,666, and the loans ran over $86,500,000. In Italy 690 banks that furnished reports had a working capital of over $170,091,946. In Germany there is one bank for every 1,600 of the population, and the total business done was over $4,888,000,000. In one province there is a bank for every 3,000 acres of land; and so on for all other nations that have cooperative credit institutions.

The rate of interest charged was one or two points lower than in commercial circles, yet these banks, with a few exceptions, made a fair profit on the turnover of their capital. In some instances it ran as high as 5 per cent and 7 per cent.

With this striking array of figures to show its stability and usefulness, it is remarkable that the farmers of the United States have been so slow to adopt this system of banking for temporary loans on personal security. It has existed in Canada for twenty-two years. In the Province of Quebec there are a number of mutual banks that have loaned hundreds of thousands of dollars. But Massachusetts is the only state in our country that has made an attempt to encourage its introduction. It already has a law allowing the incorporation of credit unions. It was passed in 1909 after a careful study of European legislation, and furnishes an excellent example for the other states. The first concern to start under this law was the Myrick Credit Union of Springfield. In 12 months it had 105 members, a capital of $3,000, and $10,000 of outstanding loans. Interest rates have been low, yet it paid over 6 per cent dividends on its capital. Thirteen new unions were formed in 1911 and have $25,000 of capital. A pamphlet issued by the state bank commissioner gives a comprehensive description of the fundamental principles that a mutual association for personal credit must adhere to. We can not do better than to quote from it. They are as follows:

First. That the association shall be organized on cooperative lines. As the members may be either borrowers or lenders, according to circumstances, its affairs must be conducted in such a way as to give fair and equitable treatment to both classes.

Second. That the association shall be one of persons and not of shares. To this end each shareholder has one vote, irrespective of the number of shares he holds. Furthermore, a limit is set to the number of shares or the amount of deposit which a member may have in the association, in order that no one person may have a too dominating influence or be able to damage the association by suddenly withdrawing large sums.

Third. That loans shall be made only for the purposes which promise to result in a saving or a profit to the borrower. Each applicant for a loan must state the object for which he desires to borrow, in order that the credit committee, which passes on all loans, may rigidly exclude thriftless and improvident borrowing.

Fourth. As loans are made only to members and as any member may become a borrower, care must be taken to admit to membership only men and women of honesty and industry.

Fifth. As personal knowledge of the character of the members is essen-

tial, the membership in an association must be restricted to citizens of a small community, or of a small subdivision of a large city, or to a small group or organization of individuals.

Sixth. Every provision must be made to bring the association within the reach of the humblest citizen. The par value of the shares should be small (it averages about $5), and they should be payable in very small installments. Loans of very small amounts should be made and should be repayable by installments if desired.

Seventh. In making loans it should be recognized that character and industry are the basis of credit, and a loan may be made to a member who has not adequate security to pledge for it, provided he can obtain the guaranty of one or more other members, but no member is obliged to guarantee the loan of another member unless he desires to do so.

Eighth. Borrowers must carry out to the letter the conditions of repayment agreed upon at the time their loans are made. Prompt payment of obligations is a fundamental requirement of these associations.

It should not be inferred from the great success and good accomplished that the cooperative credit associations could be taken as models in their entirety or that the establishment of such societies would act as an immediate panacea for all the troubles that beset agriculture in America. They seem to be adapted only for localities where the population is fixed and settled and welded together in close relation by community of interests. In Austria, Germany, Finland, Ireland, France, Russia, the Balkan states, and practically everywhere the state has in some way or other given aid to these banks. A very general practice is the distribution of subsidies through state-endowed central banks at rates that allow the peasants to obtain money below the ordinary market figures. It is not conceivable that American farmers would accept such assistance from the government and thus become a privileged class supported in part by the rest of the people. The state-aid program in Europe has made its way against the opposition of the true exponents of cooperation, because it violates the cardinal principle of self-help upon which the idea is founded.

The state intervention that has marred so many European systems was the outcome of conditions that have never been paralleled in the United States; and in considering this point the paternal care which princes formerly exercised in their domains should not be overlooked. The peasant was released from serfdom in Germany in 1807 and in Russia in 1861, and in other nations at intervals between these dates. His release did not bring him complete freedom. It was not until the

feudal system and all manorial rights were abolished and grievous servitudes and dues commuted to fixed charges that the peasant became a full-fledged citizen, capable of acquiring title to land. This finally came to pass in Germany as late as 1848. He emerged from his bondage benumbed in mind and sensibilities by ages of oppression, unambitious, ignorant, and lacking the power of initiative. He spun and wove his own flax, as his ancestors had done; made his own clothes and household utensils; built his thatched house with the aid of neighbors; and raised whatever he ate. If, perchance, anything had to be purchased it was paid for with farm products. Even taxes were paid in this way. He had no credit and very little need for it. So he lived with all his kind.

This Arcadian existence was rudely disturbed by the rise of modern industry. Gradually the old fashions of life in the country disappeared. More taxes were levied. The growing cities required more foodstuffs, and the peasants who were equipped and trained only for local demand began to produce for the open market. This meant commerce, with business knowledge, banking facilities, and money, but of these they had none. On account of their abject ignorance and poverty they were at the mercy of the money lenders and middlemen, and became the victims of the most grasping forms of usury. Their plight was rendered desperate when improved methods of transportation and the great steamships brought to the European shores the cheap grains from over seas. Innumerable plans and efforts were made to remedy the situation. Some of them got on the statute books, and naturally a strong trace of them remains. Over 200 different projects were submitted to the National Assembly of France around 1852 for improving rural credit facilities. But the solution of the problem was not brought about by governmental action. The mutual banks that began to spread over Europe in the sixties of the past century and which finally brought credit in abundance to the farmers were the results of the life work of two active philanthropists whose theories were antagonistic to state aid and based on the idea of self-help alone. The achievements of these men may be truly ranked among the greatest romances of finance. As their names are still used to designate the two principal types of banks, the important facts of their lives should be known.

The cooperative idea for personal credit was originated in Germany by Francis Frederick Schulze a little before the middle of the nineteenth century. It passed over into Austria and Hungary in 1851, into Italy in 1860, into Belgium in 1864, into France in 1883, into Scotland in 1889, and into Ireland in 1894. These dates are given to show the order of advance and the recentness of the movement in some parts of Europe. The first German association was formed in 1849 by Frederick William Raiffeisen. Herr Schulze did not get his started until the following year.

Herr Raiffeisen was poorly educated but deeply imbued with religious feelings. He lived among peasants in a sparsely settled and impoverished locality, and his object was to help the lowest classes. The associations which grew up under his guiding hand were mutual societies confined to small farming districts. The thought of profit was discarded and they were manged by the gratuitous services of their members. Herr Schulze was a talented writer and speaker, and when he took up his life work was holding a judicial post in his native town of Delitzsche. His philanthropy, although intense, leaned to the practical side. He believed in paid services and fair returns for money. The associations formed under his leadership were located mainly in towns. They were managed by salaried officers, and membership was dependent upon the purchase of shares on which dividends were allowed. But both kinds were founded upon the fundamental principle of combining persons together and using the credit created by their united guaranty for providing funds for members who might wish to borrow.

In the early days the mutual credit associations were formed simply by articles of agreement in the nature of a partnership contract, and members were jointly and severally liable without limit for all the loans that were made. In course of time, when the government began to take official recognition of the associations, some of the followers of Schulze favored a limit to this liability. Hence the mark of distinction became clearly defined between "Raiffeisenism" and the "Schulze-Delitzsche" propaganda. The German law, as it now stands, requires mutual banks to have share capital, but allows them to be organized upon the limited or unlimited liability plan. All true Raiffeisen banks, in order to preserve their character, have shares of only

a nominal value and devote dividends to educational or charitable purposes. In Germany these local banks are grouped under central banks, which in turn are linked together by two general central banks, and their funds are made to move freely for agriculture throughout the Empire. The centralization of the system has also been inaugurated in France.

This brief description is sufficient for the purpose of this report, and no further particulars need be given. Full and detailed information of all the various European associations and systems has been printed by the government at Washington and is now available for the public. The documents printed for free distribution include translated bulletins of the International Institute of Agriculture at Rome, the historical sketch compiled by Mr. Edward I. Peters for the Department of Agriculture in 1894, and the findings and comments of the American ambassadors and ministers in Europe which have been forwarded to the State Department during the past five months.

The cooperative credit associations have been of incalculable value to agriculture in Europe. There is no question on this point, and the investigation so far conducted shows quite as conclusively that such societies could be of great benefit to farmers in many parts of the United States. The mutuality of the organization is not an untried idea in America. The mutual life insurance companies, fraternal aid societies, and building and loan associations have prospered. Four-fifths of the savings of the people are to-day deposited in mutual savings banks; and these institutions are organized for encouraging thrift and industry and for handling small sums, as is the case with a credit society in Europe. But their operations are largely confined to cities and towns. This is also true of the savings banks in European nations. The only system yet devised to give ample banking facilities to farmers and afford them personal credit for short-time loans seems to be that of local societies grouped together under central banks, managed by the farmers themselves, and exclusively devoted to their particular uses. In 1903 there were 16,106 credit associations in Germany; 14,084 were in the country, and over one-third of the members of the remaining 2,022 belonged to the agricultural class. This ratio prevails in all other nations and proves the peculiar adaptability of the mutual-credit idea for the use of farmers. The establishment

of the societies in America would be a matter for state legislation and encouragement, just as Massachusetts has pointed out the way. After the societies have been thoroughly tried and tested and become a real part of the banking systems of the country, an equitable portion of the millions of dollars pouring into the postal savings banks might be loaned to or deposited with them, thus putting these funds to safe and productive uses, and solving at the same time a vexatious problem now facing the federal government. But we can not be too emphatic in cautioning against hasty action. In Germany and Italy, where the best models may be found, success has been attained by slow growth and toilsome labor upon carefully worked-out plans.

The rural cooperative credit associations are, as we have shown, local mutual societies for encouraging thrift and granting loans for small amounts and temporary purposes on what may be called "character" security. The Raiffeisen banks have over $45,000,000 loaned out on mortgage, but the chief business by far is loans on current account or for short, fixed periods, running with renewals no longer than from harvest to harvest and secured by the guaranty of two associate members. The societies obtain money for their purposes by the deposits of members and nonmembers, and in the Schulze-Delitzsche banks by share capital also; but lending is strictly confined to members. The size of the average deposit is around $370, the average loan $150, and membership 95 persons. These are figures for the German banks. In other nations the averages are smaller. The farmer in Europe, when obliged to mortgage his farm, does not go to this credit society. This should be kept in mind. Real estate credit is usually obtained from the life insurance companies or the savings banks, as in America, or from the land-mortgage banks.

The Old Landschaften

The land-mortgage banks are either joint-stock corporations or societies of borrowers. These latter are typified by the well-known German Landschaften, and are the originals of all land banks. Before them the private money lender reigned supreme. The organization of land credit in fact began with them. They undoubtedly also suggested the cooperative idea to Herr

Schulze, because five, with nearly $60,000,000 of mortgage loans, were in existence in 1848, when he was trying to start his personal-credit society at Delitzsche. These peculiar institutions are associations of landowners, and have no shares and pay no dividends, the profits, if any, going to reduce the loans; and since they and their borrowers are identical, and managerial services gratuitous, they have been able to lend money at lower rates than any other kind of companies.

The establishment of the old Landschaften was the outcome of the indebtedness and distress of the nobility, and their membership in Germany is still composed mainly of that class and large landed proprietors. After the Seven Years' War the nobles, who owned nearly all the land, lacked the working capital necessary to repair and cultivate their damaged estates, and so were unable to pay their creditors. Frederick the Great ordered the suspension of interest on all estate debts for three years. The period was subsequently extended. The result was the withdrawal of the money lenders from agriculture, the rise of interest to ruinous rates, and a financial stringency that involved the public welfare. In order to relieve the situation this autocratic King decided to adopt plans that had been submitted by Herr Bühring, a Berlin business man. Accordingly, in 1769, by a royal fiat, he forced the nobles of Silesia to join an association whether they wished to borrow or not, and their lands were made jointly liable without limit for all loans granted by the association. Loans were granted only upon the consent of the directorate elected by the members themslves. Great care was naturally exercised, so no losses occurred, while immense credit came to the association.

This was the first Landschaft. Others were formed in the same fashion. Nine more were formed by the provinces and one voluntarily. Then two companies were organized on the cooperative principle, so that there are now 25 Landschaften. The mortgages held by them, all on farm lands, exceed $500,000,000, and the interest rate runs as low as 4 per cent and 3.5 per cent per annum. The bonds by which the money for these loans were obtained are secured by the mass of underlying mortgages and general assets of the issuing association, and ultimately by the unlimited liability of all its members. The collective guaranty and the fact that loans are made

only to members constitute the characterizing features of a true Landschaften; but there is a growing tendency to limit this liability and substitute reserves in place of it.

Originally a Landschaft did not give cash to a member in exchange for his mortgage. It gave him a bond which simply contained a promise to pay in the event the interest and principal could not be collected from the debtor. The bond was of the exact size of the mortgage, primarily secured by it, and made payable to bearer on a few months' notice. In case of default the holder had to resort to foreclosure proceedings, so the bonds had only a limited circulation, and were often sold below par. This was but a slight advance on private money lending. Later the associations undertook to collect the interest and principal. Finally they assumed direct responsibility, and began to give cash to members for their mortgages, raising funds for this purpose by issuing and selling bonds of even denominations for large and small amounts. The practice of requiring mortgages to be paid in lump was abolished, and in place thereof the loans were made repayable by annual installments running through a long period of years, and the installments were set aside for redeeming the bonds. These steps brought about a complete revolution in land credit and marked the beginning of the land-mortgage business as it is known to-day. The whole theory of the organization of land credit is based upon this debenture bond and system of amortization and sinking funds devised and introduced by the Landschaften. One without the other two is useless. The three must be combined, and also coupled with strong management under wise laws in order to attract a steady flow of cheap money to agriculture. It is remarkable that this truth has never been realized or applied to the United States for farm-mortgage loans. In spite of the example of practically every nation in Europe for generations, the lending of money on mortgage in America still remains largely a mere brokerage business unrestricted by proper governing laws, either by individuals or corporations, while mortgages continue to be drawn up for three or five years, when experience shows that the average life of a loan is far in excess of that period and needs to be renewed time and again, with added expense to the debtor and trouble for the creditor. Had the European amortization system been employed the

companies dealing in western farm mortgages between 1890 and 1894 probably would have escaped the misfortunes that brought them down to ruin.

Amortization is simply a method of paying off a loan by returning a little of the capital each year. These payments are called annuities and are composed of the interest and contributions to the sinking fund and the cost of conducting business. They are calculated for periods of 10 to 75 years, and at the end of the period the mortgaged debt becomes extinguished and the property returns to the owner free and clear of all encumbrances. The prevailing interest rate on amortizable mortgages in France at present is 4.3 per cent. But by adding a little over 3.2 per cent to this, and paying 7.5 per cent a year, a French farmer can extinguish his debt within 20 years and obtain a satisfaction piece in full from his creditor. Thus, suppose he borrowed $10,000. He pays $750 annually twenty times for the interest, sinking fund and expenses. This makes a total of $15,000, interest included, and his debt is paid off. A farmer in the Southwestern states would pay this much for interest alone, and his debt would still be unsatisfied. Amortization has a twofold value. It lessens the debtor's burden year by year and increases in an equal ratio the security of the lender, provided, of course, the sinking fund created by the accumulated annuities be properly and honestly kept for the redemption of the debentures. The Landschaften were very particular in this respect. Hence, their debentures obtained the confidence of the public, and through their means they were able to draw capital from all parts of the country for distribution among their members at the lowest rates on record. If a holder of a bond wished his money back he had merely to sell his bond in the open market. In this way fluidity was given to real estate securities for the first time in history and the dream of "mobilizing the soil" accomplished at last. For these reasons the Landschaften hold the most prominent place in the literature on land credit, and everybody who studies that subject must begin with them.

The old Landschaften, however, have many characteristics peculiar to their own localities and dates of their foundation. They are in fact governmental institutions, and their head officers are public functionaries clothed with summary executive

and judiciary powers over the property, and, to some extent, over the actions of their associate members. These powers were simply an enlargement of the feudal and manorial rights possessed by princes in early times, and so, in many respects, are contrary to modern ideas. But the new Landschaften, which have adopted the best principles, present points worthy of careful study. A description of these latter institutions taken from the excellent report of Sir F. A. Nicholson to the Madras Presidency in India follows.

The New Landschaften

These new institutions are of different patterns. Several are annexes to the older societies, but most are independent and resemble ordinary mortgage banks, except in the essential point that they have no share capital earning dividends. They are, as the old societies, simply syndicates of borrowers formed to supply proprietors with capital on the lowest possible terms and repayable in the easiest manner. They are gratuitous intermediaries between the outside capitalists and the borrowers, and while performing services of the highest importance in testing the security offered by the borrowers and in guaranteeing to the public the safety of the capital lent by them, they charge absolutely nothing for their services beyond a small commission, perhaps one-fourth of 1 per cent, or even one-tenth of 1 per cent, to cover actual expenses. It is usual for each association to be restricted to a particular area of operations within which every proprietor, whether noble or peasant, may obtain a loan if he can offer sufficient security. There is always a minimum limit either to loans or to the value of property on which loans will be given. This is usually low. In the new Bradenburg Landschaft, affiliated to the old Kur-und-Neumark Landschaft, loans may be granted on property having a net income of only $25. The minimum limit is seldom even approached.

Members are those who borrow from the bank. They are generally responsible in all their property, not merely for their own borrowings, but for the debts of the society to the outside public. But in some cases only the property pledged to the society is responsible; in others they are bound, in case of need, to pay a sum proportionate to the amount of their own borrowing. There are no shares to be paid up except in two

societies. These two resemble cooperative societies, for the shares are personal and nontransferable, are of unlimited number, varying with the number of members, and their value is claimable by a withdrawing member. The share seems to be demanded simply to provide a first working capital and the nucleus of a reserve. The amount of the share is frequently a certain percentage of the amount of the loan required. Some societies demand an entrance fee of a few cents, which goes to the reserve. This reserve will be dealt with below.

The societies in general, having no share capital, do not lend their own funds. The candidate for a loan asks that debentures may be issued against a mortgage of his property. This is then examined. If the security is approved the candidate executes a mortgage deed to the society, which thereupon issues debentures which are placed on the market and, being sold, provide the funds for the loan. In the old banks the debentures are simply handed to the borrower, who sells them for himself. In the new land banks either this is done or the bank sells them and pays the borrower the value if below par, or if they sell above par then the face value, the surplus going to the reserve; or they simply issue debentures on the market and pay the borrower the amount of the loan as settled. It will be seen, then, that the banks have no capital and no need for it.

The debentures are for the usual class, secured not by the particular mortgage on which they are issued, but by the whole mass of mortgages held by the bank and by all its proper forms of security, viz., the property of the members, the reserve or guaranty fund, and even the sinking funds. In some banks a debenture holder has the right (never needed, however) of requiring a court to assign a particular mortgage against his debenture as a specific security in case the bank should fail to pay him his interest or capital due. A debenture holder can not demand payment of his debenture, except when it is drawn for payment. But the bank can call in any at six months' notice, besides withdrawing them by lot in the usual way. These debentures enjoy an excellent position, the 4 per cents selling usually at or above par. Since cheapness of loans is the sole object of the bank, it is customary to call in debentures selling at a premium and issue a fresh series at a lower rate.

Loans are usually applied for to the district committee

which each bank has, with a statement of the property, the amount required, and all documents necessary to prove title and freedom from encumbrance. Properties may be valued by a special valuation, or a multiple of the net income as assessed to the land tax may be taken. In both cases, however, an inspection of the property is necessary unless under a special rule. Half to two-thirds of the estimated value is allowable as a loan. The interest paid by the borrower on the loans is that paid by the bank on the debentures, the bank being merely an intermediary betwen the borrower and the actual lending public. But where the bank pays the loan in cash it charges such interest as it thinks proper, in order to make up any loss should the debentures sell below par. Loans are repayable almost entirely by amortization, usually in about 53 years. Some short-term loans are granted, with corresponding debentures. The bank can not demand repayment of a loan except in case of waste, deterioration, or the like. On the other hand, the borrower is at liberty to repay in whole or in part whenever he pleases, but must pay the entire interest for the half year in which he repays. The loan is repaid by an annuity consisting of the interest, sinking fund (usually beginning at one-half of 1 per cent), with a contribution to the reserve or guaranty fund, and another for the expenses of administration. The annuities have totaled 6 per cent, but they now average around 4 per cent or lower; e. g., interest being 3 per cent, sinking fund one-half of 1 per cent, guaranty fund one-fourth of 1 per cent, and expenses one-fourth of 1 per cent. Some of the banks also require a lump payment on the grant of the loan of 1 or 2 per cent, to be credited either to the working or to the guaranty fund. The working fund is formed by the contribution made for the expenses of management and any special sources.

Hungary is the only nation outside of Germany that has a true Landschaft of the original type. But modified forms exist in Russia, Austria, Switzerland, Denmark, and Roumania, where they have been useful in supplying agriculture with cheap capital. There is no older principle in land credit than the Landschaften idea. It has been tested and proved by over 130 years of success, and could undoubtedly be employed to advantage by water users' associations in the irrigated regions of the

West and in other parts of the United States where landowners might unite to raise funds for drainage or other improvements for their common good. Some of the banks of Switzerland and the credit associations of Denmark, with the laws governing them, perhaps furnish the best models, as appears from the reports of the American ministers to those countries that have been forwarded to the Secretary of State.

The most noticeable fact revealed by the investigation of the European land-credit institution is the all-pervading presence of the state in every nation. Most of the older joint-stock corporations have a public character equal to that of the German Landschaften. Every one that dates back to 1850 to 1860 was directly organized by the state or brought into existence by a government fiat or favoring legislation, subsidized in some way or other and granted special privileges. The supervision now exercised over them all is most stringent, going into the minutest details and varying from direct control to surveillance by state officials, usually by special laws that impose heavy penalties for malfeasance or even neglect of regulations. Continental Europe is accustomed to state intervention. Commercial credit was organized by means of central banks connected with the government, and so this régime was naturally followed in organizing the land credit. For this reason the results obtained, at least in some instances, can not be used by way of comparison to illustrate the possibilities of organization along the lines of private and independent endeavor.

But whatever may be the opinion entertained for the state intervention in the land-credit system of the Continent, there can be no doubt that the working principles and business methods of the European land-mortgage banks are the best ever devised, and that they will have to be introduced into the United States if it be hoped to make the farm mortgage a fluid and popular form of investment and direct a flow of capital in sufficient volume to agriculture to enable it to keep pace with the progress of the nation. The main features of this system are the limitation of the interest rate that can be charged, the amortization of the debt, and wise and equitable regulations and restrictions relative to loans and the issuance of debentures which protect the farmer from extortion and thriftless borrowing, and at the same time bring safety and a feeling of con-

fidence to the investing public. These features, with modifications and additions, appear in all European land banks, whether they be semipublic as they are in France, Spain, and Russia, or of a private character, as with some cases in Germany, or of the mixed type of Switzerland and Italy, but are best exemplified in the great Crédit Foncier of France—the largest and most successful land bank in the world.

The Crédit Foncier of France

This famous institution was formed in 1852 under the law enacted that year for organizing the land credit and improving agricultural credit facilities. It was immediately placed under government control, given a subsidy, and granted a monopoly for 25 years. The monopoly was not renewed, but all its original special privileges remain, which perhaps accounts for its being the only land bank in France. Its relation with the state is very close, and many of its most important features were taken bodily from the Landschaften. Inasmuch as the institution has been the model for all Europe and is now being widely discussed in the American press a description at length will be given of it.

The governor and two subgovernors of the Crédit Foncier are appointed for life by the President of the Republic. It is subject to the surveillance of the Treasury Department of the government, and three of its directors must be high officers of the department. It may use the government treasuries for the receipt of its dues and the deposit of its surplus funds and enjoys a reduction in stamp and registration duties.

Its debentures are registered or payable to bearer, and the claim of a third party to them can not be made in court except in case of theft or loss. Trust and public funds may be invested in them. Its mortgages are exempt from the decennial registration and consequent charges required of other mortgages. It has a cheap and speedy method of "purging" the title of real estate in case of disputes. In the event of default the courts can not grant the debtor any delay and payments due it upon loans can not be garnished or attached. It is allowed summary proceedings for attacking mortgage property in case of violation of contracts. If dues are not paid or if the property deteriorates it may attach and sell the property simply upon

notice and publication. During attachment proceedings it has a right to all returns from the estate. The sale may be by auction in a civil court or at a notary public's office, if the court permits, and no adverse claim to the proceeds of the sale can be allowed until its claims are fully satisfied.

The regulations under which the Crédit Foncier transacts its business are very strict. The mortgage loans must be first liens. The property must have a clear and unencumbered title and yield a certain and durable income. Loans on theaters, mines, and quarries are not accepted. The amount loaned on any property must not exceed half its value, or one-third the value for vineyards, woods, orchards, and plantations. Factory buildings are estimated without regard to their value for particular purposes. A borrower can not bind himself to pay a greater annuity than the total annual income of the property mortgaged, while on the other hand the society is not allowed to charge borrowers 0.6 per cent over the rate at which it obtains money on its debentures issued at the time of the loans. An excess of only 0.45 per cent is allowed on loans to municipalities. The outstanding loans and debentures issued must exactly correspond in amounts.

After paying a 5 per cent dividend the Crédit Foncier must set aside between 5 and 20 per cent of the balance of the profits each year for the obligatory reserve, and continue to do so as long as the same does not equal one-half of the capital stock. The investment of this reserve is left to the board of directors. The capital stock of the society must be always maintained at the ratio of one-twentieth or more of the debentures in circulation and is the primary guaranty of its obligations, especially the debentures. The capital at present is $40,000,000, divided into 400,000 shares of $100 each; but authority has been obtained to increase the same to $50,000,000, represented by 500,000 shares, which will be done before the debentures in circulation pass the legal limit. One-fourth of the capital must be invested in French rentes or other treasury bonds; one-fourth in office buildings of the society, or by loans to French colonies, or in securities deposited with the Bank of France as a guaranty for advances. Shares can not be issued at a price below par. They are nonassessable. The surplus may be loaned on mortgages or to municipalities or may be used in other mortgage

business allowed by the statutes; and for buying its own debentures, making advances to borrowers in arrears, or purchasing mortgaged property in foreclosure; and for acquiring commercial paper acceptable by the Bank of France or securities to be deposited with that bank.

The governor of the Crédit Foncier must be the owner of at least 200 shares of stock of the society. He receives a salary of $8,000. The sub-governors must hold 100 shares each. Their salaries are $4,000. They perform such functions as are delegated to them by the governor, and in order of their nomination fulfill his duties during his absence on account of illness or other causes. The governor appoints and dismisses all agents of the society and superintends the organization of the service in Paris and elsewhere. He countersigns the debentures and signs the share certificates and all other papers and documents and must strive to promote the interests of the society in every way. The governor is the head of the board of directors, which is composed of himself, the two subgovernors, the auditors, and 20 to 23 directors. This body possesses the administrative powers of the society and is beholden only to the laws and the general assembly of the stockholders for the proper exercise of the same. The three auditors are the guardians of the society. Their duties are to watch, investigate, and make reports. The only power they have is to call extraordinary general meetings of the shareholders.

The general assembly of the stockholders meets regularly once a year. It consists only of the 200 largest stockholders, of whom 40 make a quorum if they hold one-tenth of the stock of the society. Each member has one vote for every 40 shares of stock held, but can not cast more than five votes in his own name, nor more than 10 in his own name or by proxy. He has, however, a right to one vote even though his shares be less than 40 in number. The general assembly receives the report of the governor, and also of the auditors, if any. It elects the directors and auditors and decides on all resolutions or proposals for the increase of capital, the amendment of the by-laws and constitution, and generally on all matters not otherwise specifically provided for.

The only places outside of France where the Crédit Foncier can do business are Algiers and Tunis. Under a clause in its

charter which allows it, with the sanction of the government, to enter into projects for improving the soil, developing agriculture, and to extinguish existing debts on real estate, etc., the society has been authorized to finance drainage projects and to advance money on the paper of the Sous-Comptoir des Entrepreneurs, an incorporated association of builders. It may also receive deposits up to $20,000,000, one-fourth of which must be kept in the government treasury and the balance invested in government paper, treasury bonds, or high-class bankable commercial notes and securities. In connection with its banking house it has large deposit vaults.

The Crédit Foncier is permitted to take short-term mortgages and does a big business in that line. But the true purpose of its existence and the greatest part of its operations are the granting of long-time loans. These are made on mortgages to individuals and without mortgage to municipalities and public establishments. The periods run from 10 to 75 years. The annuities required to be paid for amortizing the loan for the average period used are so small as to appear insignificant. The success achieved by the Crédit Foncier in popularizing the amortization principle for real estate loans is the chief cause of its great renown. At present its interest rate for mortgage loans is 4.3 per cent per annum, for public establishments 4.1 per cent, and 3.85 per cent for municipalities. The total annuity, including both interest and amortization sum, for a 25-year mortgage loan is a little over 6.5 per cent. With this small annual payment the debt is gradually wiped out, and nothing is left to be paid at the end of the term. The longer the term the smaller the annuity, and vice versa. The loans now exceed $870,000,000. An amortization table of the society follows:

Annuity of a capital of $100, *interest at* 4.3 *per cent, payable semi-annually*

Duration.	Annuities.	Duration.	Annuities.
5 years	$22.440405	45 years	$5.043495
10 years	12.409111	50 years	4.881753
15 years	9.115217	55 years	4.758395
20 years	7.504843	60 years	4.663140
25 years	6.566976	65 years	4.588881
30 years	5,964436	70 years	4.530558
35 years	5.552593	75 years	4.484483
40 years	5.259040		

The Crédit Foncier is obliged to keep the interest and amortization payments in separate accounts, the latter going to create a sinking fund for the retirement of outstanding debentures. As stated above, the amounts of the loans and debentures must balance each other; consequently, as loans are paid up debentures must be paid off. Borrowers have the right to pay in advance, which they frequently exercise, so the proper adjustment of the balance is beyond the control of the society. It is for this reason that the debentures, although calculated to be redeemed synchronously with the loans they represent, have no fixed time for maturity and are recallable at option. In each issue a certain number are repayable by lots, with prizes for the lucky holders. A bond last year drew a prize of $40,000. The right to give prizes at the lottery drawings is one of the special privileges of the society. The debentures are of two kinds—those representing the mortgages are called "foncières" and those representing the loans to municipalities and public establishments are called "communales." They are issued in series. The smallest denomination is $20. They may be bought by installments and are the most popular form of investment in France, being held largely by farmers and poor people in the cities. The issue of 1912 for $100,000,000 at 3 per cent, payable within 70 years, was oversubscribed 18 times. The total land mortgages and municipal indebtedness in France is figured at $2,800,000,000. Nearly one-third of this is represented by the loans of the society.

Such is the Crédit Foncier of France. The control exercised over it by the state through the appointment of its head officers, the simplified foreclosure proceedings, and the other judicial, administrative, and fiscal privileges accorded to it are common practices in continental Europe. As mentioned above, all the older banks are specially privileged, and consequently have a practical monopoly of the mortgage-bond business in some of the nations.

German Mortgage Banks

In view of this fact the mortgage banks of Europe may be classified generally as public or semi-public, and as strictly private institutions. The first have just been described. The latter are all those which, whether they consist of lenders or

only of borrowers, operate under general laws and have absolutely no privileges. The state, however, does not leave these companies entirely to their own devices. They are limited in the conduct of their business by strict rules and regulations, and are subject to the most scrutinous supervision. The best law of this kind is that enacted in Germany in 1899. It is the last word in legislation for private joint-stock mortgage banks, and with slight modifications could be easily adapted to the United States, as it was framed to overcome the troubles occasioned by the conflict of authority between the sovereign provinces of which the Empire is composed. Remarkable as it may seem, these companies in Germany have outstripped the old established and specially privileged public banks. They now have $2,618,000,000 loaned out on mortgage, or over five times more than the Landschaften. The capital is $170,563,000, the smallest being $238,000 and the largest $14,000,000. The bonds in circulation amount to $2,548,009,000, with interest at 3½ or 4 per cent per annum, while the average returns on mortgage loans are 4.22 to 4.33 per cent per annum. As 6 per cent and even 14 per cent dividends are yearly declared, the figures again furnish a favorable comparison with the Landschaften and Crédit Foncier. The provincial head, however, selects the president of one of these newer German banks, while the Imperial Government watches over them all. The supervision is carried out by royal commissioners and extends to the minutest detail. These inspecting officials have the right to verify the securities and cash on hand, and demand information regarding every separate transaction. They may also send a representative to general meetings of stockholders and to sittings of boards of directors and take all measures that may seem fit to enforce the proper conduct of business. They also approve the appointment of the auditor and assistant auditor, who are charged in each bank with the duty of seeing that debentures are issued only upon the conditions and within the limits legally prescribed. This German law of 1899 has been so effective in directing the flow of cheap money through these banks for the purchase and improvement of real estate, and furthermore illustrates so clearly the trend of modern European legislation that a translation of its chief provisions has been made and is given below.

Companies of limited or unlimited liability founded in Ger-

many for the purpose of lending money on real estate and for the issue of bonds on such mortgages, and the institutions known under the name of mortgage banks, require, in order to carry on such business, the consent of the Federal Council. If in the statutes of a mortgage bank it is declared that such bank will only make mortgage loans in the state of the Empire in which it has its head office, the authorization shall be given by the authorities of the state in question. The consent of the council is also necessary for any change in the statutes of any mortgage bank.

Mortgage banks shall be subject to government inspection. This inspection shall be carried out by the inspector in the state in which the bank shall have its head office. The inspection shall extend to the entire business of the bank and shall continue after the dissolution until completion of the liquidation.

The total amount of mortgage bonds issued shall be secured by mortgages of at least equal value and bearing an equal rate of interest. Such security, as far as mortgages on agricultural property are concerned, shall consist to the extent of at least one-half of the mortgages with amortization, and with a yearly amount of amortization of not less than one-fourth of 1 per cent of the mortgaged properties. The banks, may, however, in cases in which mortgages are paid back before they are due, and until the amortization period has run out, make use of the interest as cover. If the bank takes over a property on which it has a mortgage in order to prevent the loss of the said mortgage, it shall only use this property as cover for mortgage bonds to the extent of one-half the price the bank paid when it purchased said property. If on account of repayment of mortgages or any other causes the mortgage bonds are no longer secured, and if the necessary security can not at once be replaced, the bank shall, for the time being, replace the failing mortgage securities by Imperial Government bonds or by those of the federal state or by cash. Such government securities shall be valued at 5 per cent below their price on the bourse at the time of purchase.

A mortgage bank shall not issue mortgage bonds for any sum exceeding 15 times the amount of the paid-up capital and the reserve funds which shall have been created solely for the purpose of covering deficits or for the security of the holders of such bonds.

Loans by mortgage banks shall be limited to real estate in Germany. Only first mortgages on such real estate shall be allowed. The amount advanced by a mortgage bank on the security of such property shall not exceed three-fifths of the total value of the property. The authorities may permit loans to be made on agricultural properties to the extent of two-thirds of the value.

The estimated value of the property on which money is lent on mortgage shall not exceed the estimated sale price arrived at after a careful valuation of the property. In the estimation of such value the permanent value of the property and the revenue therefrom shall alone be considered; that is to say, the value which the property should produce when properly managed by its owner. In the case of a valuation having been made by a public official of the state in which a given property lies, the Federal Council may decide that the estimation of value made for the bank for the purpose of a mortgage shall not exceed the valuation made by the official in question. Mortgages on building lots or on uncompleted buildings which produce no revenue shall not be utilized to cover mortgage bonds for more than one-tenth of the total value of the mortgages used as cover for such bonds and shall not exceed one-half of the total paid-up capital of the bank. Mortgages on real estate which does not yield a permanent income shall also be excluded from those mortgages which may be utilized for securing mortgage bonds.

Each mortgage which serves as cover for the issue of mortgage bonds shall be recorded by the bank in a special register, which shall contain a complete record of each specific operation. In the first month of each calendar half year the auditors shall deliver to the inspecting authorities a certified copy of the mortgages which have been recorded during the preceding half year, which certified copy shall remain in the possession of the inspecting authorities.

Each mortgage bank shall appoint an auditor and an assistant auditor. The appointment shall be made through the bank inspection authorities after consultation with the bank. The inspecting authorities may at any time revoke such appointment. The auditor shall satisfy himself that the necessary cover for the mortgage bonds issued is at all times existent. He shall

not, however, concern himself as to whether these securities have really the value given to them, in the event of such properties having been duly approved and certified by the inspecting authorities. The auditor shall further satisfy himself that the mortgages and securities, which are intended to cover the issue of mortgage bonds, have been duly entered in the mortgage register. The auditor shall certify on each mortgage bond, before its issue, that the necessary cover is existent and that it has been duly recorded in the mortgage register. Mortgages or securities recorded in the register shall only be removed therefrom with the consent of the auditor, in writing. This may be effected by his indorsement of the mortgage register. The auditor, together with the bank, has the custody of all documents regarding the mortgages and securities recorded in the register and such money as serves as cover for the mortgage bonds. He may only hand over these objects to the bank in conformity with the provisions of the law. He is bound on the demand of the bank to hand over the mortgage deeds as well as the securities and money, and to cooperate in the extinction of the record of such securities in the register in so far as the remaining mortgages on the register suffice to cover the mortgage bonds, or in cases where the bank shall create other securities. Should the bank have to surrender to the borrower the mortgage deed to carry out the operations required by the civil code, the auditor shall hand over the deeds, except in the case where the exceptions described in the civil code exist. When a mortgage is repaid the money shall be handed over to the auditor to be taken care of.

Should the bank temporarily require a mortgage deed the auditor shall hand it over without the bank's being bound to provide other cover. The auditor is authorized to inspect the books and writings of the bank at all times, in so far as they refer to the mortgage bonds and the mortgages recorded in the mortgage register. A mortgage bank is bound to make constant communication to the auditor of the repayment of the capital of the mortgages entered in the register, and all the changes regarding these mortgages which concern the holders of mortgage bonds. The amount of the honorarium agreed upon shall be communicated to the inspecting authorities; failing an agreement the amount shall be settled by the inspecting authorities them-

selves. Auditors who intentionally do anything to the prejudice of mortgage bondholders shall be punished for betrayal of trust according to the provisions of the criminal code.

Whoever knowingly shall issue for a mortgage bank mortgage bonds above the amount for which they are covered by the mortgages and securities or money in the hands of the auditor shall be punished with a term of imprisonment not exceeding one year and a fine not exceeding $5,000. A similar punishment shall be given to any person who, acting on behalf of a mortgage bank, shall knowingly sell or change a mortgage or other security entered in the register of the bank when the remaining mortgages or securities inscribed on the register do not suffice to cover the mortgage bonds. A similar punishment also shall be given to any person who shall fail to observe the law by not handing over to the auditor money paid in redemption of a mortgage. If there are extenuating circumstances only a fine may be inflicted. Whoever shall issue for a mortgage bank a mortgage bond which does not bear the certificate provided by law shall be punished by a fine not exceeding $250, or with imprisonment not exceeding three months. Nonobservance of other provisions of the law shall be punished with a fine not exceeding $750.

Conclusion and Recommendations

With this brief account the preliminary report on European land and rural credit facilities is closed. Enough has been told, it is hoped, to show the working principles upon which they are based. No more has been attempted. There are 20 or more nations in continental Europe. They have all been confronted by the problems which worn-out soils and increasing population have finally thrust upon the United States, and each has proceeded to solve these problems after its own fashion and in ways adapted to its peculiar conditions and customs. How well they have succeeded is attested by the general acknowledgment that endurable existence of their teeming millions would not be possible except for the means which have been devised for financing the farmer and landowner. In many nations where the situation was desperate—more desperate than can ever be feared to happen in America—the state intervened, granting enormous subsidies and free use of money for agriculture. In

other nations the churches and public-spirited men, endowed with wonderful energies, have directed their disinterested efforts to effect combinations for associated action. But these are subjects for subsequent investigation. The object of this report is to present the plans which were developed by the farmers themselves, and rest upon unassisted and independent endeavor for the accomplishment of their purpose.

The nation that furnishes the best examples of this kind is Germany—the birthplace of land and rural credit systems, and where to-day they have reached their fullest and most useful development. As explained above in this report, cooperative credit, real and personal, started in Germany, and as it spread throughout Europe it underwent modifications. But these changes were corruptions rather than improvements of the original idea. The true rural credit society is a small group of farmers—the smaller the better—intimately known to each other and holding themselves liable without limit for their associated obligations. This unlimited liability is the main thing. It compels the exercise of caution in the selection of members and inspires confidence in the public so that loans may be obtained up to the full value of the collective guaranty. In most nations such societies have never lost a cent, while the losses that have occurred in all Europe for the last 30 years are too trivial to be mentioned, so there need be no hesitation in adopting the unlimited-liability plan. After a society is well established it attracts deposits from members and outsiders. It becomes, in fact, a little loan and savings bank, with funds on hand sufficient for its operations and only rarely is obliged to borrow and put its collective guaranty to the test. It passes from the rôle of a borrower to that of a lender, and as it confines this function solely to its members, who are identical with itself, no profit is sought, interest rates are reduced, and practically no risk is incurred. These societies in Germany are so sound that during panics funds have been withdrawn from commercial banks and deposited with them for safe-keeping, and at times they have had more money than they knew what to do with.

The example of one successful society encouraged the formation of other societies in its neighborhood. In every nation the movement has spread rapidly when once it got fairly started. Two hundred new central societies and 474 local ones were

formed in Germany last year. The record of previous years has frequently exceeded this. As they increase in number they become affiliated according to geographical or political divisions, and organize central banks for exchange purposes and to connect them with the general banks. This is the natural way a system is developed. It can not be begun by beginning at the top. The growth must be voluntary, prompted by necessity, and based on the small local units self-managed and making loans to members only. Thus was the great German system evolved, the statistics of which have been cited above. The 12,000,000 farmers of the United States are adding over $8,400,000,000 to the national wealth each year. They are doing this on a borrowed capital of $6,040,000,000, on which $510,000,000 of interest is annually paid. Counting commissions and renewal charges, the rate is averaged at 8½ per cent for this country, as against 3½ or 4½ per cent for Germany. If the American farmers had a thoroughly organized system of mutual credit societies they would not only save this difference of 200 or 250 millions of dollars to themselves individually, but in course of time the entire debt would be transferred to the societies, the interest paid to them, an economic waste stopped, and this stupendous sum restored to agriculture. The assertion is neither fanciful nor extravagant. It is below the actual ratio obtained by a comparison with the German figures.

Too much emphasis can not be laid on the fact that these small credit societies are not organized for making loans on real estate. The deposits and funds received by them are withdrawable on short notice. This privilege must be allowed in order to attract the capital needed. But as loans to members yield interest considerably under the ordinary marked rate, the only way they have of paying for the use of this capital is by making quick and numerous turn-overs with it. In Germany they have taken long-time mortgages, but the practice is strongly denounced by all students who have investigated into the cause of the remarkable success of the Raiffeisen and Schulze-Delitzsche systems as contrary to the theory on which they are founded. Credit is indispensable to every business. It is the means whereby $1 is made to do the work of $50, as the saying goes, but its classifications and limitations can not be ignored without danger. A loan to acquire something merely for consumption is not

tolerated, no matter what may be the security offered. The loan must be strictly for a creative purpose. This is the first cardinal principle, and so rigorously is it adhered to in Europe that the credit societies invite to their circle only those who are producers of wealth, while the better class of mortgage banks discountenance all borrowing except for the purchase or the improvement of real estate. Another principle is that personal and real credit are inherently and irreconcilably separate and distinct, and each must have specially adapted institutions for carrying on its operations.

The recognition and observance of these principles have done much to prevent thriftless debt among farmers, and are undoubtedly the reasons why the land credit is so thoroughly organized on the European Continent. A loan on chattel or character security should naturally be for a short time and for temporary purposes, for such security is perishable and subject to loss or change. The long-time loan requires an unchanging and permanent security, and the only thing possessing this quality is mother earth herself. But when capital is once sunk in land it becomes fixed and can never be recovered except from the income created thereby or the amortization sums paid in representation of that income. A debtor should not be called upon to pay back the loan in lump or in advance of his receipts from the land. To do so leads only to further borrowing, usually on more burdensome terms, when the mortgage expires. On the other hand, a private individual can not be expected to take his money back in driblets or wait long years for its complete return. So, private lending on real estate is a theoretical and also a practical wrong. The proof of this lies in vast numbers of foreclosures and the excessive interest rates of farm mortgages in western United States, where they are largely held by persons. The smallness of the annual payments and the length of an ordinary loan in Europe are shown in the tables of the Crédit Foncier, which have been included in this report. A glance at them makes it apparent that amortization, the basic principle of a land loan, can be brought into full play only by the aid of large corporations or associations with charters perpetual or lasting a long time.

An incorporated body has a further advantage over private individuals provided it gains the confidence of the public and

carefully preserves the sinking fund created by the amortization payments. It can issue debentures against the mortgages, sell the same, and so immediately recover the entire capital lent regardless of the length of the loan. This debenture bond by which a land mortgage is made fluid was invented, as has been previously mentioned, by the German Landschaften, or Ritterschaften, as the older type of these associations are called. Nothing like it has been used in America. By rendering amortization possible it brought benefit to debtors. As it runs for long periods, 50 to 75 years, synchronously with the loans, and is recallable only by lot or option of the maker, the issuing banks can not be embarrassed by sudden withdrawals of money during panics or at inopportune times, and from the standpoint of the lender it leaves nothing to be desired. If he choose, it may be drawn payable to bearer and sold and transferred by the simple act of delivery without legal or fiscal expense, thus enabling the holder to regain the whole or any part of his savings practically at will. These bonds have been an almost perfect security for generations. The safeguards thrown around them by law make them a safe and sound investment, open for the poor as well as for the rich, and by their means large sums and petty hoards have been collected from all quarters of the Continent and wisely used for the improvement of land and the development of agriculture. It should be noted that the tendency to centralize is as strong in the land-credit organizations as in the rural cooperative credit systems of Europe. All the nations have either one or only a few banks. In Germany a central bank has been formed by a group of Landschaften and another has been formed for the mortgage banks. The local concerns arrange the loans and send the documents, including the mortgage indorsed, over to the central banks, which issue debentures against them in several languages. They are sold readily in foreign markets.

The time has now arrived for action in the United States. Very little now can be gained by further study of the European field. The investigations which are being carried on through the agencies mentioned in this report have already gathered nearly all the material required concerning the working principles, business methods, and achievements of the farm and land-credit systems; and full and complete information will soon be available, with all details. The rural mutual-credit societies, as

is well known, have been operating successfully as far back as 1862, and have made the farmers not only their own bankers, but by aiding cooperation in all its branches have also enabled them to become their own merchants, buying supplies at wholesale and selling produce directly in all the nations where they flourish the best. The Landschaften and other mortgage institutions have evolved the true theories of the mortgage loan—never tried in America—and have made real-estate securities so safe, convertible, and cosmopolitan that in Europe they sell as readily as government bonds, and thus collect and distribute cheap money for use in the improvement of the soil and development of agriculture, and this has been going on for over 130 years. The models and the proof of their worth are at hand. With some modifications they could be easily adapted to the agricultural needs of many parts of the United States.

There is practically no limit to the amount of capital that could be advantageously employed for rehabilitating worn-out and abandoned farms, opening up new areas, and introducing modern methods of cultivation; and it is of vital importance that this capital be obtainable at once in sufficient volume and on easy terms. The world-wide problem caused by the pressure of population upon the means of subsistence now confronts the United States in the very face of its matchless natural resources and vast acreage of arable lands still remaining untouched by the plow. The $385,000,000 of foodstuffs exported last year barely equaled 76 per cent of the annual interest charges on the debts the farmers owe.

The cause of the trouble is the lack of capital, and the remedy lies in financing the farmer and the landowner. This is the indisputable conclusion logically reached from examination into the actual conditions and from comparisons furnished by recent European history. The solution of the problem concerns the general welfare as much as does the currency and monetary reform, and it is gratifying to note that it seems destined to go side by side along with this undertaking. For as soon as the alarm was sounded the best talent of the nation became enlisted, and bankers, merchants, professional men, legislators, and private individuals in town and country, many impelled purely by patriotic and disinterested motives, have combined their efforts to better the situation before it pass to the acute and critical stage.

The establishment of agricultural cooperative credit associations is largely a matter for state legislation and encouragement. The making and the management of these little societies are so simple and their success so inevitable, where the environment is congenial to their growth, that without doubt they would spring up in multitudes as soon as the proper laws were passed, and in course of time develop systems as large and effective as those of Germany. A great many cooperative stores already exist in this country. Cooperation has been taught by farmers' journals for years, and the spirit of it is in the air. The organization of land credit, however, is a complicated task, especially since the idea is new in the United States, and involved in a tangle of conflicting state laws and antiquated land-registration and taxation systems and foreclosure procedures. Many changes, amendments, and additions would have to be made in respect to all these before the way could be made clear for the formation of land-mortgage banks. In addition to the uniformity of laws, uniformity of business methods must also be brought about. This means statutory regulations and limitations such as have been described in this report; and also official supervision. But this supervision need be not the bureaucratic kind of Europe, but similar to that exercised in the United States over national banks, savings banks, and public-utility corporations. Free scope for private enterprise and initiative should be allowed and encouraged, but the days of "wild-catting" in the United States are gone for good, and promoters should never again be given the opportunity to exploit the necessities of debtors and prey upon the public as was done during the farm-mortgage craze 18 or 20 years ago.

The only instrument by which land-mortgage banks can finance themselves, draw money from the public for investment in loans, are the debenture bonds, but these bonds will not circulate freely nor far from the place of issue unless they are known to have the same underlying values and give the same rights to the holder, regardless of whether they be secured by mortgages in Texas, Massachusetts, or in any other states. But possessed of these characteristics as guaranties of law, there is no reason why debentures of large mortgage banks and Landschaften should not be listed in stock markets and sold, negotiated, and exchanged as readily as railway and municipal securi-

ties, and thus equalize and reduce interest rates for farmers throughout the country.

The objects of the investigations set on foot by the Departments of State and Agriculture have been accomplished. The public is aroused, and the movement has finally been started for organizing the land credit and improving agricultural-credit facilities in the United States. The nonpartisan character of the interest awakened clearly indicates the next step to be taken. The persons foremost in this movement should get together, open headquarters at some convenient place in the Middle West, systematize the work of propaganda, and see that it advance along similar lines in all the states. Special conventions should be held in those states where the needs are most urgent. Later on a national convention should be assembled or at least a national committee appointed to sit in continuous session. Every effort should be made to secure the uniformity so much to be desired in state laws, and to give a proper direction to any federal legislation which should be proposed. Such is the recommendation of this report.

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What Is Agricultural Credit? R. B. Van Cortlandt.

Agricultural Credit is something vitally interesting to every citizen of this country. The term is new here, but the thing itself is so urgently needed that we must have it in some form if our people are to remain prosperous—if, indeed, we are to continue to live. Various European nations, with soil naturally inferior to ours, have established Agricultural Credit and thereby have greatly eased the burden of the cost of living. Hitherto we have lived on the bountiful overflow of our rich land, and the pinch of necessity has not been felt; but now our population has grown enormous, our standards of living have been greatly raised, and our land is showing the effect of generations of taking out with very little putting back. We must do better or suffer.

How will Agricultural Credit help us? Speaking generally it will make life easier and better for all of us by increasing the yield of the land. And this will be done first, by placing agri-

culture on a better business basis; second, by mobilizing land and land mortgages; and third, by establishing financial institutions in which the prime interest will be that of the borrower—not that of the lender. If this programme seems utopian, the best reply is that its aims have been already realized with great gain in Europe, notably in Germany and France.

Hitherto the American farmer has not been a bookkeeper. His work is hard, and when the day is done he does not care to reckon up accounts. If at the end of the year the unpaid bills are not too heavy, and if the farm buildings, stock, tools, etc., are in fair shape, he is satisfied. That was the practice of the fathers, and it answered for their time; but to-day we are confronted with conditions that demand vast improvement in our methods if we hope to survive. Our grain and our cattle used to feed a large part of Europe. They do not now—or at least our food exports are but a fraction of what they used to be. We must not only replace the elements of fertility in the land, but we must practice more intensive cultivation.

These things cost money. The initial investment must be large. The question then arises is the American farmer, so long used to easy-going methods, to get hold of the large sums he needs for betterments? By the installation of Agricultural Credit, farming will not only be made more profitable, but it will in the end make country life more attractive, so that our young people will remain on the land, and thereby check the present tendency to flock to the cities. The banking system of to-day is adapted to the needs of manufacture and commerce. The processes of nature are so much slower, however, that banking for farmers must be organized on a basis of credit for much longer periods.

Our present system of borrowing on land is by mortgages running from three to five years, the entire principal coming due at one time. This is expensive, involving renewals, and dangerous from the possibility of the mortgage falling due at a time of restricted credit so that it cannot be renewed. On the continent of Europe this business is handled by so-called land-mortgage banks, or rather associations. These associations are formed along varying lines, some with stock like the great French institution, the *Crédit Foncier;* some having no stock, like the German *Landschaften;* some being guaranteed by a state or

province, as in Austria; while the principal one in Hungary combines ingeniously various features peculiar to itself. These institutions are formed along certain general fundamental lines as follows:

The mortgages granted are pledged for the security of bonds which the institution issues and sells in the general market. These bonds have no fixed maturity, but can be retired at par or some small premium at any time. When the borrower mortgages his land to the bank he agrees to pay a certain fixed sum semi-annually. This is called the "Annuity" and is composed of the annual interest plus an amount, generally one-half per cent, toward the reduction of the principal of the debt and known as "Amortization," and an additional amount, about one-quarter per cent, toward the expenses of the bank. The borrower, therefore, at once begins to extinguish the principal of the debt; and as each year the principal decreases, the interest, of course, decreases also, and, the annuity being fixed, the proportion of it applicable toward the extinction of the mortgage increases. Thus it happens that, beginning with a payment of one-half toward principal, the mortgage bearing four per cent to four and one-half per cent, which are the general rates, the entire debt is extinguished in between fifty and sixty years.

The borrower has the right at any time to pay off the mortgage, a small penalty being generally exacted; but the lending institution cannot require payment from the mortgagor, thus guarding against any higher rate of interest being exacted during the life of the loan; whereas, should interest rates fall, the borrower can anticipate the payment of the mortgage and secure the benefit of the lower rate of interest. If payment of a mortgage is anticipated, or when the semiannual payments are received by the bank, it enters the market and buys or retires a corresponding amount of its bonds, so that its outstanding bonds never exceed in the aggregate the total of the mortgages it holds against them. This has also the advantage of making a constant market for the bonds, and there is no necessity of sinking-funds for special mortgages, as they are under a general pledge. These banks do not compete with the commercial banks.

The mortgaging of land is known as long-term credit, and it may be handled, as stated above, by joint-stock institutions or by associations of borrowers, the nature of the business being

such that both forms of institutions have advantages and defects which may make the one form more adaptable to one community and the other form more adaptable to another; but in institutions furnishing the credit required by farmers for working capital, such as the purchase of seeds, fertilizer, payment for labor, etc., which is known as short-term credit, the third aim referred to—that the borrower should be primarily considered rather than the lender—assumes fundamental importance.

On the continent of Europe a solution is found in the organization of banks by the application of so-called co-operative principles. The purpose is to provide organizations in which the borrower receives consideration rather than the lender, also to keep the money of any body of individuals for the use of that body. Under our present system a great deal of money belonging to farmers finds its way into Wall Street. At present the lenders are organized; whereas the borrower stands alone. In a joint-stock bank the primary consideration is that of the stockholders.

The initial capital is secured by entrance fees and subscription to shares wherein the principle of limited liability is adopted; or, if there are no shares, resort must be had to the principle of unlimited liability—*i. e.*, the equal and unlimited liability of all members who join the bank for every obligation the bank may contract.

After the co-operative bank is formed, the problem of securing funds to loan is, of course, the chief one; but, as one of the principles followed is to limit dividends on the stock to four or five per cent, a reserve can be gradually accumulated. Deposits come in as it is seen that the bank is doing a safe business, all speculative business being avoided. Other important features are that every stockholder has but one vote, no matter how many shares he owns; it is provided that no person shall own more than a certain number of shares, generally ten per cent; and another absolutely essential feature, where the bank is formed with unlimited liability, is that the area in which it operates shall be so restricted that the members can all know and watch one another. The loans must be for a productive purpose and not, for instance, for living expenses, so that when the purpose sought has had time to accomplish the results aimed at, varying in agriculture from six months to two or three

years, the borrower will receive funds to liquidate the loan. Loans are granted only to members of the bank, although deposits are accepted from outsiders.

The chief difficulty is that of securing funds sufficient to supply the needs of borrowers; therefore the advisability of forming a central bank for a group of local banks was clearly seen. The central bank acts as a clearing-house for the funds of the local banks, some of which have a surplus of deposits above the loan requirements of their neighborhood. In addition, the central bank, being an institution with very considerable resources, is in a position to do business with the large commercial banks and with the Government banks of issue which exist practically in all European countries. That this whole system of co-operative banks is of no mean proportions is at once shown by the fact that in Germany, for instance, their deposits amount to nearly $500,000,000, and the turnover of thirty-six out of forty central banks in 1910 was about $2,000,000,000.